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ABSTRACT

Contained in this teacher's guide are the materials necessary to teach seven instructional units related to keeping farm business records and preparing financial statements. The following instructional units are presented: (1) orientation; (2) inventories; (3) journal entry; (4) enterprise accounting and supplemental records; (5) cash flow management; (6) net worth statement; and (7) income statements. A short chapter that explains how the document should be used precedes the instructional materials. Instructional materials for each unit include some or all of the following elements: (1) performance objectives; (2) suggested activities; (3) "must know" content essential for meeting the cognitive objectives of the unit; (4) student handouts; (5) transparency masters; (6) student assignment sheets; (7) tests; and (8) answers to tests and assignment sheets. (CML)

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FARM BUSINESS RECORDS AND FINANCIAL STATEMENTS

Developed by
Curriculum and Instructional Materials Center
for the division of Agricultural Education
Oklahoma State Department of Vocational and Technical Education
Dr. Roy Peters, Jr., Director
Oklahoma State Board of Vocational and Technical Education
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FOREWORD

Good records are essential for making sound farm management decisions. In today's economic climate, borrowed money is a necessity in the operation of most farms. For a farmer to justify the need for borrowing, most lenders require a complete financial statement and cash flow projection to show how much must be borrowed as well as timing when it will be needed.

The *Farm Business Records and Financial Statements* curriculum will provide class members with the necessary knowledge to put a complete financial statement together. By having a complete financial statement and cash flow projection, the probability of obtaining the necessary financing for the farming operation will be greatly enhanced.

Aside from the benefit for borrowing money, they also provide another benefit. As the farm family establishes goals for the operation, a complete financial statement will be necessary for them as they chart their progress toward meeting those goals.

With proper instructor planning and class member time-on-task, the materials in *Farm Business Records and Financial Statements* will provide class members in the Farm Business Management program a solid foundation of knowledge on which to base his/her decisions.

Roy Peters Jr., Director
Oklahoma State Department of Vocational
and Technical Education

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and Technical Education

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Without the help of the above persons and the other Oklahoma Farm Business Management instructors this project would not have been completed to the quality that Oklahoma instructors have come to expect from the Oklahoma State Department of Vocational and Technical Education. To all Oklahoma Farm Business Management instructors—thank you very much!

Terrell B. Ogilvie
Technical Writer

USE OF THIS PUBLICATION

Instructional Units

Farm Business Records and Financial Statements includes seven instructional units. A standard format was established in 1970 for development of instructional materials for all Oklahoma vocational teachers. This format includes nine basic components that form a unit of instruction: performance objectives, suggested activities for the instructors, information sheet, transparency masters, handouts, assignment sheets, job sheets, tests, and answers to tests and assignment sheets. Depending on specific objectives, there may or may not be transparency masters, assignment sheets, and job sheets included in the unit of instruction.

All of the unit components "zero in" on measurable and observable learning outcomes. Instructors are encouraged to supplement, personalize, localize, and motivate with these materials in order to develop a complete teaching/learning process.

Units of instruction are designed for use in more than one lesson or class period of instruction. Careful study of each unit of instruction by the instructor will help him or her determine the following

- Amount of material that can be covered in each class period
- Skills that must be demonstrated
    1. Supplies and equipment needed
    2. Amount of practice needed
    3. Amount of class time needed for demonstrations
- Supplementary materials, such as pamphlets and filmstrips, that must be ordered
- Resource people who must be contacted

Performance Objectives (white pages)

Each unit of instruction is based on the performance needed for successful employment in an occupational area. Performance objectives are stated in two forms: unit objectives, stating the subject matter to be covered in a unit of instruction; and specific objectives, stating the performance necessary to reach the unit objective.

Since the objectives of the unit provide direction for the teaching/learning process, it is important that instructors and class members have a common understanding of the intent of the objectives. Following is a list of performance terms, their meanings, and behavioral synonyms that may have been used in this material.

- **Name**—The individual supplies a name for objects, events, or people.

  Behavioral synonyms: Label, list, letter, record, reiterate, repeat, write

- **Identify**—The individual selects a named, described, or pictured object by pointing to it, touching it, picking it up, or selecting it.

  Behavioral synonyms: Select, mark, match, choose, judge

- **State a rule**—The individual communicates a relationship or principle that could be used to solve problems or perform a task.

- **Apply a rule**—The individual supplies an answer to a problem by using a stated relationship or principle.

  Behavioral synonyms: Solve, calculate

- **Describe**—The individual relates sufficient characteristics or properties of an object or event so that a second individual will be able to state what is being discussed.

  Behavioral synonyms: Define, discuss, interpret, recite, tell how, tell what happens when

- **Distinguish**—The individual selects an object or event from two or more that are easily confused.

  Behavioral synonyms: Discriminate, differentiate

- **Order**—The individual arranges three or more objects or events in a sequence based on a stated property.

  Behavioral synonyms: Arrange, sequence, list in order, classify, divide, isolate, sort

- **Construct**—The individual makes a physical object, a verbal statement, or a drawing.

  NOTE: Construct is used when the finished product or result is important.

  Behavioral synonyms: Draw, make, build, design, formulate, reproduce, transcribe, convert, put together, compile

- **Demonstrate**—The individual performs several operations necessary to carry out a specified process.

  NOTE: Demonstrate is used when it is desirable to watch the student perform a task, one of the highest levels of student performance.

  Behavioral synonyms: Show your work, show procedure, perform an experiment, perform the steps, operate, remove, replace, turn off/on, (dis)assemble, (dis)connect

The objectives should be provided for students and stressed throughout the teaching/learning process. This will help answer any questions concerning performance requirements for each instructional unit. The objectives can also help determine teaching strategies and instructional methods. Prepare for each unit by deciding how each objective can best be taught.

The objective sheet may also be used as a quick pretest to determine prior knowledge of class members and to determine whether further study or activities are necessary. Instructors should feel free to modify, delete, or add objectives in order to meet the needs of the class members and community. When changes in objectives are made, the instructor should remember to supply the needed information, assignment and/or job sheets, and criterion test items.

Suggested Activities (pink pages)

This component is included only in instructor material. The suggested activities pages assist the instructor during the preparation stage of the teaching/learning process by providing suggestions for delivery and/or presentation during the instructional process. Read the suggested activities before teaching the units to allow time to obtain supplemental materials, prepare audio-visual materials, and contact outside resources. Duties of the instructor will vary according to the particular unit.

The references that are listed are ones used in the development of each unit. They should be used by the instructor to supplement her or his knowledge of the subject area or to help class members with particular interests or occupational objectives in the area covered.

Information Sheet (green pages)

The information sheet provides "must know" content essential for meeting the cognitive (knowledge level) objectives of the unit. The information is written in a modified outline form and is keyed to the specific objectives.

Instructors will find that the information sheet serves as an excellent guide for presenting background knowledge necessary to develop the skills specified in the unit objective. The information sheet may also be used for coordinating activities and advisory committees.

Class members should read the information sheet before the information is discussed in class. Space is provided in margins for class members and instructors to add notes that supplement, localize, personalize, or provide motivation for each unit.

Handouts (white pages)

Handouts are additional material that support and go beyond portions of the Information Sheet. Handouts include such activities as games, puzzles, and additional information that may be used to broaden the students understanding of the information.

Transparency Masters (white pages)

Transparency masters provide information in a special way. Transparencies direct the class's attention to the topic of discussion. Transparencies may present new information, or they may reinforce information presented in the information sheet. They are particularly effective when identification is necessary. Make transparencies, and place them in the notebook where they will be immediately available for use.

Assignment Sheets (brown pages)

Assignment sheets give class members a chance at problem solving, self-assessment, and/or practical experience with the information. They assist students in the application of knowledge that is a necessary prerequisite to skill development. These may be given to the student for completion in class or used for homework assignments. Answer sheets are provided when appropriate and can be used by the student and/or instructor for checking student progress.

Tests (yellow pages)

This component provides criterion-referenced evaluation of every objective listed in the unit of instruction. It is crucial to note that both paper/pencil and performance objectives must be evaluated.

The tests may be written or oral. It is recommended that the tests be divided into shorter tests covering three or four objectives at a time and given soon after those objectives have been covered. A selection of questions from the units covered may be used for final tests at the end of each term if desired. If objectives have been added, deleted, or modified, be sure to make the changes on the test.

The acceptable response on a unit test, 85 percent in most units, may be raised or lowered to fit the topic or class members' ability levels. The percentage applies to the overall score, not to each individual question. The final unit grade should be obtained by using the paper/pencil score along with evaluations of class members' demonstrations of the desired skills.

Answers to Test and Assignment Sheets (pink pages)

These components are designed to assist the instructor in evaluation of student performances.

Teaching Methods

It is a challenge to keep class members motivated. Supplement the objectives by providing the "why," personal experiences, and current information. Prepare for each unit by deciding how each objective can best be taught. Allow class members to become involved in preparing and planning.

Corrections and Suggestions

The Curriculum and Instructional Materials Center wants to provide vocational instructors and students with materials that are accurate and effective. Although the Center strives to maintain the highest standards of development and production, oversights occasionally do occur. If you find any errors in this or other CIMC publications, or have suggestions for improving their usefulness in vocational programs, please notify the CIMC staff. One easy way of pointing out errors is to make a photocopy of the affected pages and to indicate the correction on the copy. You can then mail the information to the CIMC, where it will be used to correct the publication before the materials are reprinted.

To ensure that the material is updated on a timely basis, it is important that you notify the Center of necessary corrections as soon as possible after discovering the error. Do not assume that someone else will notice the error and inform the CIMC; other users may be making the same assumption. Please send corrections and recommendations for improving this publication to the following address:

Coordinator of Curriculum Development
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OBJECTIVE SHEET	ORIENTATION	I

UNIT OBJECTIVE

After completing this unit, the class member should be able to discuss the purposes and benefits of a farm business management adult education program. The class member should also be able to distinguish between farm business and family goals and objectives. The class member will demonstrate these competencies by completing assignment sheets and written test with a minimum of 85 percent accuracy.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to

1. Match to their correct definitions terms associated with farm business management and goal setting.
2. Select from a list components of a strong farm business management adult education program.
3. State the primary objective of a farm business management adult education program.
4. State three basic questions a farm business management program should answer.
5. State three benefits of a farm business management program.
6. Match areas of farm business management instruction to their correct descriptions.
7. State the roles of a farm business management program instructor.
8. Select from a list elements of farm business management program organization.
9. List factors to consider in decision-making.
10. Discuss strategy for decision-making.
11. Arrange in order steps in a systematic decision-making process.
12. State two advantages of a systematic decision-making process.
13. Match types of activities a farmer faces to their correct descriptions.
14. Arrange in order the five-step process of time management.

15. State suggestions for organizing a schedule.

16. List three advantages and three disadvantages of setting goals and objectives.

17. List five examples of farm business and family goals.

18. Discuss reasons for setting goals and objectives.

19. State four guidelines for setting goals and objectives.

20. Distinguish among short-term, intermediate-term, and long-term goals and objectives.

21. List factors for determining priority of goals and objectives.

22. List examples of goals that compete for time, money, and earnings.

23. Select from a list techniques for achieving goals and objectives.

24. Complete enrollment form. (Assignment Sheet 1)

25. Determine the basic values of the farm family for setting goals and objectives. (Assignment Sheet 2)

26. Establish farm business and family goals. (Assignment Sheet 3)

27. Develop goals and objectives for farm business and family goals. (Assignment Sheet 4)

SUGGESTED ACTIVITIES	ORIENTATION I
PREPARATION	Order the video *Oklahoma Farm Business Management Program* to supplement unit. • Make transparencies. • Provide refreshments and plan a get-acquainted activity during break time. EXAMPLE: Pair class members and ask them to introduce each other when class begins.
DELIVERY	**Introduction** • Have class members turn to Handout 1 so that they may play "Who Am I Like?" You may wish to give a prize to the class member who collects the most signatures. • Open class by introducing yourself and asking all persons to briefly introduce themselves. NOTE: Suggest that each person share his or her name, number of children, location of farm, enterprise on farm, hobbies, or interests. • Emphasize the purposes of the farm business management program. EXAMPLES: Show newspaper clippings about class members who are enrolled currently or who have participated in the program. • Ask class members or former class members to speak to the new class members on the benefits that they have received from their participation in the farm business management program. • Present selected items of information from the state and area comparative analysis so that this information can be compared with information from class members' farms.

- Discuss the setting of goals and objectives, and explain the importance of goals and objectives for those enrolling in the farm business management program.

  EXAMPLE: Use road maps to illustrate the idea that setting goals and objectives is much like using road maps to plan a trip. Ask potential class members to imagine taking a trip from their home to Seattle. Ask them to describe their probable routes. Focus on the idea of alternate travel routes and the reasons that people make different travel plans even though their goal may be the same (Seattle).

- Have class members complete Assignment Sheet 1.

- Review the *Oklahoma Farm Business Management Program* before discussing Objectives 1 through 8.

  NOTE: It is recommended that the instruction of the material in Objectives 1 through 8 be completed before break. If the videotape presentation is used, time required for covering the material can be decreased.

Objective 1

- Discuss Objective 1, pointing out the importance of defining terms so that each term holds the same meaning for all participants in the program.

Objectives 2 and 3

- Discuss Objectives 2 and 3 to point out the basic premise involved in a successful farm business management program.

Objective 4

- Discuss Objective 4, using Handouts 2 through 4. Discuss the objectives of the Farm Business Management program and provide examples of areas covered during the course of study.

Objective 5

- Discuss Objective 5, emphasizing the benefits of the program by referring to selected information in the state and area comparative analysis report relevant to local forms.

Objective 6

- Introduce potential class members to the areas of instruction provided in the farm business management program by discussing Objective 6. Have class members complete Handout 5.

  NOTE: The questions in Handout 5 focus on the class member's farming operations and their knowledge of farm management. This information will help you properly plan for the class and for individual on-farm instruction. Encourage class members to carefully consider their answers to the last item in Handout 5.

Objective 7

- Discuss Objective 7 to delineate the roles of the instructor and of the class members. Have class members complete Handout 6. Make copies for yourself and each class member; encourage class members to make files for their copies; file a copy at school.
- Ask class members what they expect of the instructor.
- Point out what you expect of them as a class and as individuals.
- Discuss each part of Handout 6 with potential class members before asking them to sign the agreement.

Objective 8

- Explain the importance of individual on-farm instruction by discussing Objective 8.

  NOTE: Allow class members to take a break after completing discussion of Objective 8. Encourage them to socialize during break time.

- Use Transparency 1 to point out that success is reaching one's goals. Explain that there are different goals and that they may sometimes interfere with getting anything productive done.

Objectives 9 through 12

- Discuss Objectives 9 through 12 to explain the importance of a systematic approach to decision-making.

Objective 13

- Emphasize that without goals many activities seem important, but that when one has a set of goals these same activities may contribute nothing toward the goals and may sometimes interfere with getting anything productive done.

- Use Transparency 1 to point out that success is reaching one's goals. Explain that there are different goals and that they may sometimes interfere with getting anything productive done.

Objective 14

- Introduce the importance of time management in the total farm program.

- Have class members complete Handout 7. Be sure to have each class member determine his or her personal profile for time management effectiveness.

  NOTE: You will need to provide extra copies of Handout 7 for each spouse.

  EXAMPLE: Ask class members the following questions: "If you had $86,400 each day to spend any way you wanted, how would you spend it?" Many will answer that they would spend the money for materialistic things such as new homes, cars, and travel, but as class discussion continues, long-range goals, such as buying farmland or other investments, will be brought up. Point out that each of us has 86,400 seconds each day. Ask class members how they are spending their time.

Objective 15

- Emphasize that before goals can be reached, time must be controlled on a daily basis.

- Discuss the importance of developing a written list of activities. Have each class member complete Handout 8.

Objective 16

- Point out that without a set of well-planned goals, a farm family may not know where they are headed. Use Transparency 2 to illustrate that there are different goals for different people and to stress the importance of working together to accomplish objectives.

Objective 17

- Use Transparencies 3 and 4 to provide examples of goals for one family. Discuss the words *farm business* and *family*. When discussing Objective 17, ask class members to add possible goals and objectives to the list.

Objective 18

- Emphasize that goals for the farm business and the family may not agree.

Objective 19

- Explain the importance of setting goals and objectives.
- Stress that by setting strong goals and objectives the farm manager will have a "game plan" to follow and a successful business will result.

Objective 20

- Emphasizing the importance of creating goals and objectives with specific quantities and dates so that progress can be measured.

Objectives 21 Through 23

- Stress that land, labor, capital, and good management allow individuals and families to achieve their goals.
- Provide class members with additional copies of Assignment Sheet 3 to be completed at home prior to your next scheduled on-farm instruction.

APPLICATION

Objective 24

- Ask class members to consider times that they cannot meet with the instructor.
- Have the class members complete the enrollment forms. (Assignment Sheet 1)

  NOTE: Some schools may provide a specific form for this assignment sheet's purpose. If so, the school's form may be substituted.

Objective 25

- Have class members complete Assignment Sheet 2.

- Divide the couples. Place the men on one side of the room, and the women on the other side. Have them rate their basic values individually first. Then have families regroup to complete a team consensus.

  NOTE: You will need to provide the class with additional copies of Assignment Sheet 2.

Objectives 26 and 27

- Have the class complete Assignment Sheets 3 and 4 to clarify the difference between the goals and objectives.

- Have class members begin Assignment Sheet 3. Allow families to discuss and start to develop goals. Remember, identifying goals may be new to many class members, so allow them ample time to react to the presented concept of goals. The purpose of this assignment sheet is to get the group thinking about goals and objectives. Do not expect them to finish during class. Ask them to continue working on this assignment sheet prior to the on-farm instruction. After class members have had time to discuss their major goals, ask each family to share one goal. Write three shared goals on the chalkboard or on a transparency to provide examples of how goal setting is done and to get the group to think about different goals.

EVALUATION

Written Test

- Explain to class members that they will be asked to demonstrate on the written test actions listed in the specific objectives.

- Give test.

  NOTE: The written test may be given in sections if desired.

- Evaluate class members on assignment sheet activities if not previously done.

- Reteach and retest if necessary.

- Complete appropriate section of competency profile.

- Review individual and group performance in order to evaluate teaching methods. Adjust scope, sequence, or instructional approaches for additional lessons as required.

SUGGESTED RESOURCES

Audio/visual material

- *Oklahoma Farm Business Management Program*

  NOTE: This video tape presentation is available from the Curriculum and Instructional Materials Center, Oklahoma State Department of Vocational and Technical Education, 1500 West Seventh Avenue, Stillwater, Oklahoma 74074. This video may be used as a substitute for the instructor's discussion of Objectives 1 through 8.

UNIT REFERENCE

- Steward, Jim. *Farm Business Management Volume I.* Stillwater, Oklahoma: State Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, 1984.

OBJECTIVE 1

Match terms associated with farm business management and goal setting to their correct definitions.

- **Class meeting**—Scheduled, planned group learning activity that occurs at a specified meeting place
- **Course of study**—Planned sequence of learning activities
- **Curriculum**—Instructional materials from which information is presented in the classroom or used in on-farm instruction

  EXAMPLES: Units of instruction, books, guides, course outlines, films, transparencies, printed material, fact sheets

- **Farm business management**—Combination of economic analysis and business control and the management of biological processes within the context of changing technical, legal, and human environments

  NOTE: Farm business management is more than either the direct application of production economic principles or technical production management as would be taught in a production agriculture curriculum.

- **Farmer**—Person who earns a living by farming or ranching; one who operates or manages a farm or ranch

  NOTE: In the program, the terms *farmer, farm,* and *farming* are generalized to include both farming and ranching operations.

- **Goals**—Broad statements that are the results of completing all objectives
- **Individual on-farm instruction**—Scheduled, planned individual learning activity that occurs at the class member's farm or ranch
- **Objectives**—Specific statements that are measurable and realistically attainable
- **Time management**—Effective control of time

OBJECTIVE 2

Select from a list components of a strong farm business management adult education program.

- Goal orientation

  NOTE: Farm families have different farm business goals and objectives.

- Established data base

  NOTE: Good farm managers play the facts, not the hunches. The record system must be complete enough to provide not only financial planning details but also the data necessary to point out the possible weaknesses and strengths of each enterprise in the farm business.

- Farm record analysis

  NOTE: To be useful, the farm business management program must provide some form of analysis and summary of the farm record data. The program should also provide a summary analysis of participating farmers' records to serve as a benchmark for judging the efficiency and organization of the individual's farm business.

- Planned course of study

  NOTE: One of the objectives of the program should be to educate farm families to view each decision in light of the effects it will have on the overall farm business.

- Personalized instruction

  EXAMPLES: Farm record analysis, individual on-farm instruction

- Technical support

  NOTE: To grow and prosper, farm business management programs need as much philosophical, financial, and administrative commitment from farm families and schools as do programs at other levels.

OBJECTIVE 3

State the primary objective of a farm business management adult education program.

- To improve the effectiveness of the farming operation in order to assist farm families to achieve their farm business and family goals and objectives

OBJECTIVE 4

State basic questions a farm business management program should answer. (Handouts 2 through 4)

- Where am I?

  EXAMPLES: Develop a record-keeping system, inventories, and financial statement; improve decision-making abilities; complete whole farm and detailed enterprise analyses and present farm plan.

- Where do I want to be?

  EXAMPLES: Establish farm business and family goals and objectives, marketing strategies, machinery management, and alternative farm plans.

- How can I best get there from here?

  EXAMPLES: Complete whole-farm planning, estate planning, and inventory; compare strengths and weaknesses of farm business organizations through monitoring financial and production growth of the business.

OBJECTIVE 5

State benefits of a farm business management program.

- Improves the class member's ability to survive as a farmer or rancher

- Allows the class member to identify farm business and family goals and objectives

- Increases class member's knowledge about farm business performance

  NOTE: Class members gain control by completing activities associated with financial statements, whole-farm and detailed enterprise analyses, whole-farm planning, marketing strategies, estate planning strategies, and income tax management strategies.

- Allows class members to develop a strong and stable agriculture, which gives strength to the community

  NOTE: When a farmer purchases from an agribusiness, that business is being supported by agriculture. In turn, businesses provide consumption items, without which the lives of rural people would be greatly restricted.

OBJECTIVE 6

Match areas of farm business management instruction to their correct descriptions. (Handout 5)

- **Farm business records and financial statements**—Develops skills in keeping accurate, up-to-date records for use in analyzing the farm business, making decisions, and keeping history of farm business performance

  Areas of study include:

  — Goals and objectives

  — Physical and financial inventories

  — Journal entry

  — Enterprise accounting and supplemental records

  — Cash flow

  — Net worth statement

  — Income statement

- **Income tax**—Helps to maximize after-tax income and stabilize income from year to year

  Areas of study include:

  — Depreciation

  — Income tax estimate

  — Income tax management

  — Income tax forms

- **Analysis of farm records**—Assists the farm family to determine financial condition of the farm business at the present time, to determine financial progress over a series of years, and to determine strengths and weaknesses of the farm business

  Areas of study include:

  — Year-end closing and accuracy check of records

  — Whole-farm analysis

  — Detailed enterprise analysis

- **Marketing**—Enables the farmer or rancher to select an appropriate course of action (marketing strategy) in keeping with the business's financial position, attitude toward risk, and the goals and objectives of the farm and family

  Areas of study include:

  — Introduction to marketing

  — Forward contracts

  — Hedging

  — Options

  — Charting

  — Technical analysis

  — Marketing strategies

  — Marketing plans

- **Investment analysis**—Develops and evaluates alternative farm plans using available resources and planning tools to attain farm business and family goals and objectives

  Areas of study include:

  — Cash flow analysis

  — Machinery economics

  — Capital budgeting

  — Partial budgeting

  — Enterprise budgets

  — Farm credit

  — Land resource acquisition

  — Estate planning

- **Economic concepts**—Applies economic principles to the farm business

  Areas of study include:

  — Farm cycles

  — Risk management

  — Whole-farm planning

  — Macroeconomics

- **Management techniques**—Provide strategies used for successful achievement of farm business goals and objectives

  Areas of study include:

  — Putting the plan together

  — Agricultural law

  — Insurance

  — The farm manager

OBJECTIVE 7

State roles of a farm business management program instructor. (Handout 6)

- To train farm families to recognize their farm problems

  — Provide a record system to fit the class member's situation

  — Assist in establishing a record system, preparing closing entries and other forms needed for the analysis of the business, and checking accuracy and completeness of records

- To train farm families to evaluate alternatives

  — Provide individual on-farm instruction to support the total educational program

  — Assist the class member in applying the basic analytical tools of farm management

- To train farm families to evaluate related facts obtained from farm records
  - — Assist the class member in completing an analysis of the farm business
  - — Provide the class member with a copy of the *Farm Business Management Annual Report*
  - — Discuss with the class member the results of this analysis and how it may be used to further improve the farm business

OBJECTIVE 8

Select from a list elements of farm business management program organization.

- Specific units of instruction offered in a definite sequence over a specified period of time
- Continuity between units of instruction leading toward accomplishment of farm business and family goals and objectives
- Limited class size
- Instruction in the classroom and on the farm
- Enrollment fees to pay for instructional materials

OBJECTIVE 9

List factors to consider in decision-making.

- Complexity of decision
  - — Major

    EXAMPLE: Selecting a livestock system
  - — Minor

    EXAMPLE: Brand of chemical to buy
- Frequency of decision
  - — Once in a lifetime

    EXAMPLE: Buying a farm
  - — Daily

    EXAMPLES: Clothes to wear, food to eat

- Variables
  - — Collection of continuing data

    EXAMPLES: Grain marketing, livestock marketing
  - — Dependence on other forces

    EXAMPLES: Weather, government policies

OBJECTIVE 10 **Discuss strategies for decision-making.**

- Reduce number of daily decisions
- Collect data and compare alternatives
- Order priorities from least important to most important

OBJECTIVE 11 **Arrange in order steps in a systematic decision-making process.**

- Define problem

  EXAMPLE: Own combine versus custom harvest
- Gather information about solutions

  EXAMPLE: Custom harvest charges, depreciation, interest, labor, repairs, fuel, timeliness, taxes
- Evaluate solutions

  EXAMPLES: Additional costs, reduced returns, additional returns, reduced costs
- Make decision consistent with goals and objectives

  EXAMPLE: Buy a combine to maximize after-tax income
- Implement the decision

  NOTE: Most decisions are made under conditions of uncertainty or imperfect knowledge. For any particular decision, there may be a number of possible outcomes depending on factors which are beyond the control of the farmer. These possibilities may be accounted for if the farmer takes into consideration the probability of a future event occurring.
- Evaluate, accept consequences, and do follow-up

OBJECTIVE 12

State advantages of systematic decision-making process.

- Achievement of outcomes closely related to goals
- Timeliness in decision-making
- Better-organized thought processes

OBJECTIVE 13

Match types of activities a farmer faces to their correct descriptions.

- **Urgent**—Activities that spring from yesterday's problems, not from today's opportunities

  NOTE: While *urgent* connotes immediacy, it does not necessarily relate to importance.

- **Important**—Activities that bring results and that are most essential to long-range goals

  NOTE: Only those activities that produce a "yes" answer to the following question are ranked important: "Will this activity result in high yield or contribute to achieving a vital goal or objective?"

- **Required**—Activities that must be performed but are not critical enough to rate as important

  NOTE: Be aware that it is at the expense of important activities that these required activities are often done.

- **Routine**—Activities that when completed contribute nothing important

  NOTE: Routine activities include all busy work that takes time. Such busy work often makes farmers feel that they are producing.

- **Other**—Activities that interfere with getting anything done

  EXAMPLES: Visiting over coffee, nonproductive time

OBJECTIVE 14

Arrange in order five-step process of time management. (Handouts 7 and 8)

- Determine how time is currently being spent

  EXAMPLES: Daily, weekly, or monthly time log

  NOTE: Keeping time logs every working day may seem a time waster in itself, but consider the amount of time spent tracking how money is spent. Keeping track of time is just as vital.

- Determine where time should be spent

  EXAMPLE: Setting priorities for major goals, objectives, and activities

  NOTE: The greatest obstacle to a farm manager's success is to allow urgency to dictate how time will be spent. The roles of laborer and manager are different, even though the farm operator may do both jobs. Farmers can benefit from evaluating their needs and spending adequate time on the management job.

- Measure the use of time

  EXAMPLES: Rate activities performed each day in terms of payoff; price time.

  NOTE: A close analysis of where time is being spent and where it should be spent can best be done by comparing time logs and priority lists. To measure how effectively time is presently being used, establish a relationship between time and value. After establishing such a relationship, it is easier to determine whether the activities presently being performed are worth the time and effort needed to perform them. Italian economist, Wilfredo Pareto, called it the 80/20 rule. Normally, 20% of all you do will bring about 80% of your profit.

- Order priorities

  EXAMPLES: Time must be scheduled to meet top priorities. Planning takes time. As a general rule, spending only 5 percent of the day planning can help farm managers achieve 95 percent of their goals and objectives. The more time spent on this vital activity, the more productive the rest of the day will be.

  NOTE: Remember the 80/20 rule, don't feel guilty for letting little things slip or be distracted by trivial tasks when concentrating on things that matter the most. Management expert Peter Drucker said: "Efficiency is doing things right; effectiveness is doing the right thing."

- Control time wasters

  EXAMPLES: Telephone, unscheduled meetings, unexpected visitors, unneeded paperwork, reading nonessential materials

  NOTE: The three big time wasters—interruptions, waiting, and procrastination—can make life very complex.

OBJECTIVE 15 **State suggestions for organizing a schedule.**

- Get an early start

  NOTE: Plan the day and get organized by making a list of goals and objectives.

- Streamline paperwork

  NOTE: Handle all correspondence, telephone calls, and inquiries promptly and efficiently. Putting off tedious paperwork only results in a job that is bigger and worse when it is finally faced.

- Start tomorrow's tasks today

  NOTE: Even a few minutes' work on a project planned for the following day allows you to start the next morning without running the gamut of "can't start" excuses.

- Keep a notebook handy

  NOTE: Jot down reminders of things to be done, ideas that might otherwise slip away, sudden insights, instruction, and notes for you only.

- Keep your time schedule flexible for priority activities

  NOTE: When you can do it, schedule your most difficult work for times when you work most efficiently.

- Take charge of your emotions

  EXAMPLES: Fears, irritation, frustration, worry, and anxiety

  NOTE: Control the way you feel. Try acting upon possibilities instead of worrying about the future. Action helps you complete the job and offers mental relief. Do not focus on demons you cannot control. As successful farmer, you must know where you stand in relation to the goal you are trying to reach. Learn to control your operation instead of being victimized by crisis management.

- Get regular exercise

  NOTE: Exercise helps keep you relaxed, alert, and aware of priorities.

OBJECTIVE 16

List three advantages and three disadvantages of setting goals and objectives. (Transparency 2)

Advantages

- Shows where you are going

  EXAMPLE: A road map

  NOTE: Helps avoid production "tunnel vision."

- Distinguishes between major and minor goals and objectives

  NOTE: Such distinction makes it easier to get where you are going.

- Gives purpose and direction to decisions and actions

  NOTE: Purpose and direction free you from worries and uncertainties about where you are headed.

- Prepares you to meet the future

  NOTE: You see the overall farm business and focus on critical relationships.

Disadvantages

- Takes time to decide on goals and objectives
- Is difficult to come to grips with the many, and often conflicting, goals and objectives
- May lead to indecision or lack of confidence when trying to determine priorities
- Becomes more difficult as problems become more numerous

OBJECTIVE 17

List five examples of farm business and family goals. (Transparencies 3 and 4)

- Owning a farm
- Building a house
- Providing education for children
- Controlling a larger farm business
- Being a good neighbor
- Having more leisure time
- Being a community leader
- Improving the family's standard of living
- Having a neat, well-kept farmstead or ranch

OBJECTIVE 18

Discuss reasons for setting goals and objectives. (Assignment Sheet 2)

- To determine what is worthwhile
- To explain why one thing and not another is done

  EXAMPLE: Attitudes toward work
- To create permanent goals and objectives

OBJECTIVE 19

State guidelines for setting goals and objectives. (Assignment Sheet 3)

- Should be your goals and objectives
- Should be written
- Should be realistic and attainable

  NOTE: Goals and objectives should be something that can be accomplished with some effort. Select goals and objectives in terms of available resources.

- Should have target dates

  NOTE: Give yourself time limits. Recognize both short-term and long-term goals and objectives. Goals and objectives may need to be modified as resources change or as the family is able to use the resources more efficiently.

- Should be compatible

  NOTE: Watch out for conflicts. Competition between goals and objectives is normal and desirable but may be frustrating.

- Should not be activities

  NOTE: Remember, activities are actions taken to accomplish goals and objectives.

OBJECTIVE 20

Distinguish among short-term, intermediate-term, and long-term goals and objectives. (Transparencies 3 and 4; Assignment Sheets 3 and 4)

Short-term

- Requires less than one year for achievement
- Provides immediate satisfaction

  EXAMPLES: Running a soil test to plan fertilizer rate; finishing a calf; painting a building

Intermediate-term

- Requires one to seven years for achievement
- Provides basis for long-term goals and objectives

  EXAMPLES: Raising funds and putting up a farm building; buying a farm

Long-term

- Requires more than seven years for achievement
- Provides a sense of direction

  EXAMPLES: Developing personality, leading a useful life, being a better citizen, being a community leader

OBJECTIVE 21

List factors for determining priority of goals and objectives. (Assignment Sheet 3)

- Dollar value

  EXAMPLE: Cost versus returns

- Time

  EXAMPLE: Where can my time be spent?

- Importance

  NOTE: Place most important goals and objectives first; avoid jumping from crisis to crisis.

- Resources

  EXAMPLES: Land, labor, capital

- Personal preferences

OBJECTIVE 22

List examples of goals that compete for time, money, and earnings. (Assignment Sheet 3)

- Improving capital base

  EXAMPLE: Adding feeding capacity

- Scheduling time to manage the business

  EXAMPLE: Keeping and analyzing records on timely basis

- Providing family comfort or convenience

  EXAMPLE: Remodeling kitchen

- Family security

  EXAMPLES: Hospitalization, life, retirement

- Improving farmstead or ranch property

  EXAMPLE: Painting fences

- Providing time for recreation

  EXAMPLE: Skiing at the lake on weekends

- Repairing equipment

OBJECTIVE 23

Select from a list techniques for achieving goals and objectives. (Assignment Sheet 3)

- Check progress regularly
- Use saved time and effort wisely and effectively
- Organize efforts on a "things to do" work list

  NOTE: Check off completions regularly for satisfaction.

- Check for slow or non-moving activities

  NOTE: You may need to consider available funds or consult with agricultural experts.

- Modify goals and objectives as resources change or as the family is able to use resources more efficiently

Success Is—

Reaching One's Goals!

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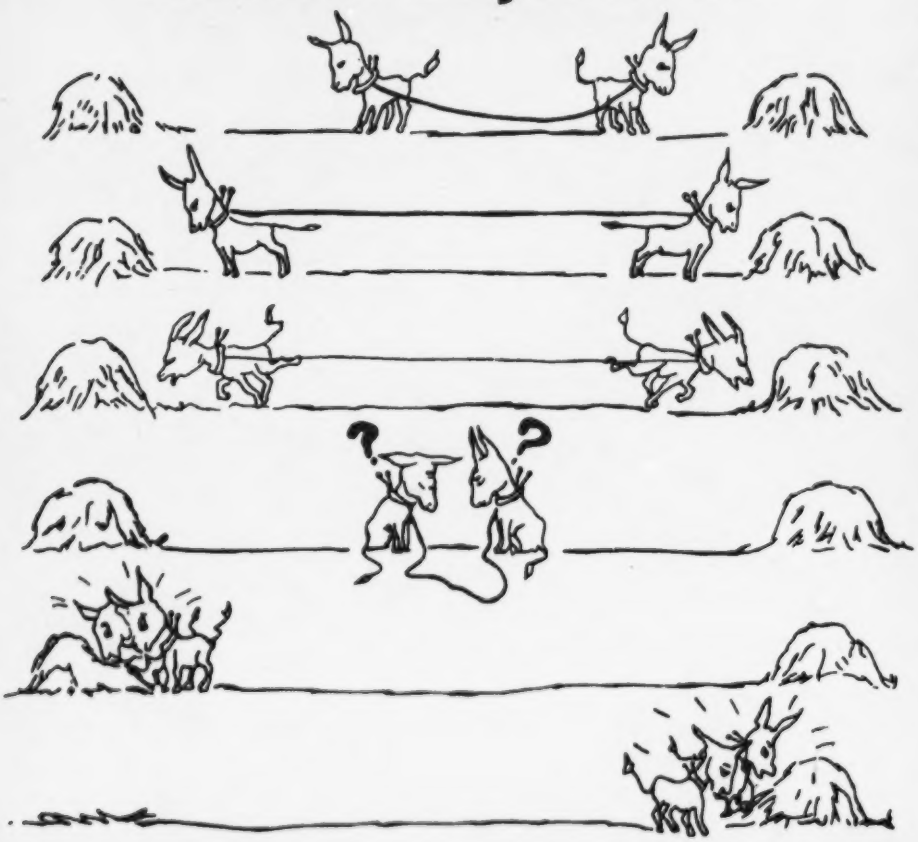
Mutual Objectives



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FAMILY GOALS

	Short Term	Intermediate Term	Long Term
Home	Home Improvement, Carpeting And New Furniture	Add family room	New home
Development Of Family Members	Develop better farming expertise by attending farm business management classes	Send wife to nearby community college	Send children tro college
Social And Recreational	Take minimum five-day family vacation	Take longer trip to California to see cousins	Travel to a foreign country
Community and Church Involvement	Attend chruch regularly	Actively participate in money-making activities	Be church officer
Other			

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Farm Business Goals

	Less Than One Year – Short Term	One to Seven Years – Intermediate Term	Over Seven Years – Long Term
Net Income	$15,000	$20,000	$25,000
Size of Farm			
Acres	120	200	360
Sales	80,000	100,000	120,000
Investment	250,000	300,000	400,000
Financial Security			
Savings	0	0	10,000
Percent Equity	40%	50%	70%
Other			

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WHO AM I LIKE?

INTRODUCTION

The following mixer activity helps strangers begin to feel comfortable with each other.

DIRECTIONS

The statements listed below can help you become acquainted with others who are attending this class. Circulate among the group members to find individuals who are described in each of the statements that follow. When you locate persons who "qualify," ask them to sign your sheet by the appropriate statement.

1. Someone with the same birth month as yours

   _____

   _____

2. Someone who raises cattle

   _____

   _____

3. Someone with the same first initial as yours

   _____

   _____

4. Someone who has the same hobby as yours

   _____

   _____

5. Someone with whom you would like to find yourself stranded on a deserted island

   _____

   _____

6. Someone who was born outside the state of Oklahoma

_____

_____

7. Someone who has the same number of children as you

_____

_____

8. Someone who "Skoal-dips" or "skinny-dips"

_____

_____

9. Someone who owns a green tractor

_____

_____

10. Someone who has traveled outside the United States

_____

_____

WHERE AM I?

- Complete the necessary financial and physical records to compute the farm business analysis and income tax forms.
  - — Record book
  - — Farm receipts
  - — Farm expenditures
  - — Depreciation schedule
  - — Inventory
  - — Credit records
  - — Family living summary
  - — Cash flow summary
  - — Supplemental records
  - — Net worth statement.
  - — Hired labor
- Complete a cash flow projection to determine credit needs and repayment ability and to compare with the farm's cash flow summary.
- Complete a ten-month income tax worksheet.

WHERE DO I WANT TO BE?

- Complete the analysis of Year I and evaluate the farm business progress for the year and its comparison with similar farms.
  - — Net worth statement
  - — Income statement
  - — Whole farm analysis
  - — Measures of performance
  - — Income tax forms
  - — Detailed enterprise analysis
  - — State and area summary analysis
- Determine the marketing techniques useful for the class member's farm business that are coordinated with cash flow needs, farm plans, and goals.
  - — Forward pricing (contracts, hedging, options)
  - — Time value of money
- Develop income tax management strategies for good and bad years.
  - — Income tax management
  - — Ten-month income tax worksheet

HOW CAN I GET THERE FROM HERE?

- Determine the farm organizational structure best suited for class member's farm business and family goals.
  - — Whole farm planning
  - — Farm business organization
  - — Estate planning
  - — Land resource acquisition
  - — Risk management
- Complete financial and physical records and analyze the progress of the farm business.

VO-TECH FARM BUSINESS MANAGEMENT EDUCATION PROGRAM QUESTIONNAIRE

INTRODUCTION

The purpose of this handout is to assist you and your farm business management instructor in assessing your educational priorities as you enter the Vo-Tech Farm Business Management Education Program.

DIRECTIONS

Complete the following statements and circle appropriate answers to indicate your individual situation.

NAME _____ Phone _____
Last, First MI

ADDRESS _____

_____

LOCATION OF FARM _____

LOCATION OF HOME _____

1. Is your farm business a (a) sole proprietorship, (b) partnership (c) corporation?

2. Total acres _____ owned _____ rented _____ total _____

   Crop acres _____ owned _____ rented _____ total _____

   Pasture acres _____ owned _____ rented _____ total _____

   Other acres _____ owned _____ rented _____ total _____

3. Types of Enterprise(s) (Circle all that apply)

Dairy	Beef Fattening
Beef Breeding	Wheat
Swine Fattening	Cotton
Soybeans	Peanuts
Cotton	Swine Breeding
Milo	Stockers
Poultry	Others
Alternative _____	

4. What percent of your personal income is derived from the farm business? (a) less than 50% (b) 50 to 75% (c) all

5. List sources of outside income. _____

_____

6. What are the estimated number of monthly farm and family transactions? (a) less than 40 (b) 41 to 60 (c) 61 to 80 (d) more than 80

7. What is your accounting period? (a) calendar year (b) fiscal year

8. If you marked *fiscal year,* list the beginning and closing dates of your accounting period. From _____ to _____

9. Does your farm provide a comfortable living for your family? (a) yes (b) no

10. If you marked *no,* what would provide a comfortable living?

_____

11. Do you maintain a record book? (a) yes (b) no

12. If you marked *yes,* who posts the entries in your record book?

_____

How often are entries posted? _____

13. If you marked *no,* how do you keep records? _____

14. What method of record keeping are you using now? (a) cash (b) accrual

15. What type of records system interests you? (a) hand record (b) computerized record

16. Do you take a written inventory at least once each year? (a) yes (b) no

17. If you marked *no,* how often do you take a written inventory?

_____

18. Do you keep enterprise records? (a) yes (b) no

19. If you marked *no,* how do you determine profitability of an enterprise?

_____

20. What farm enterprises do you maintain? (a) cow/calf (b) stockers (c) hay (d) wheat (e) milo (f) cotton (g) peanuts (h) other

21. If you marked *other,* list the enterprise(s). _____

22. What physical (production) records do you keep? (a) breeding (b) mortality (c) feed (d) machinery (e) DHIA (f) other

23. If you marked *other,* list the record(s). _____

24. What budgeting tools have you used in making decisions? (a) enterprise budget (b) cash flow summary (c) cash flow projection (d) partial budget (e) whole farm planning (f) other

25. If you marked *other*, list the budgeting tool(s). _____

26. Have you ever used a microcomputer? (a) yes (b) no

27. If you marked *yes*, what brand of microcomputer have you used and what software have you used?

_____.

28. Do you update your net worth statement at least once each year? (a) yes (b) no

29. If you marked *no*, how often is your net worth statement brought up to date?

_____

30. Do you complete an income statement at least once each year? (a) yes (b) no

31. If you marked *no*, how do you determine the net farm income for your farming operation? _____

32. Do you prepare your own income tax return? (a) yes (b) no

33. With which of the following income tax terms are you familiar? (a) investment credit (b) income averaging (c) depreciation (d) capital gains (e) MARCS (f) net operating loss (g) alternative minimum tax (h) fuel tax credit (i) self-employment tax (j) FICA withholding (k) form 1099

34. Have you ever forward priced a commodity? (a) yes (b) no

35. If you marked *yes*, what forward pricing strategies have you used?

_____.

36. Do you have an estate plan? (a) yes (b) no

37. Do you maintain a separate bank account for your farm business? (a) yes (b) no

38. Is your depreciation schedule complete and up-to-date? (a) yes (b) no

39. Do you have a written set of farm business and family goals and objectives? (a) yes (b) no

40. If you marked *no*, would you be willing to establish a set of goals and objectives? (a) yes (b) no

41. Are all principal members of your farm business willing to regularly attend a farm business management class *once* each month? (a) yes (b) no

42. If you marked *no*, who will attend? _____.

43. Are you willing to schedule individual on-farm instruction with the instructor? (a) yes (b) no

NOTE: Individual on-farm instruction is the *key* to successful completion of the program.

44. Do you understand that the area vo-tech school farm business management adult education program is a three-year management program?
(a) yes (b) no

45. Briefly state in your own words why you desire to enroll in the farm business management program.

_____

_____

_____

_____

_____

_____

COMPLETE A VO-TECH FARM BUSINESS MANAGEMENT EDUCATION PROGRAM AGREEMENT

The purpose of this handout is to further define the responsibilities of the class member and the farm business management program instructor toward the accomplishment of the objectives of the farm business management program.

This agreement is entered into this _____ day of ___ 19___ by and between _____ and the _____ Area Vo-Tech School. It covers the class member's participation and the instructor's responsibilities in the farm business management adult education program.

The primary objective of the program is to improve the effectiveness of the farming operation in order to assist farm families to achieve their farm business and family goals and objectives. Basic concepts and techniques of modern farm management will be emphasized. At the end of the program, the class member should have developed an accurate, up-to-date records system; demonstrated techniques of how to use records in financial, tax, and farm planning and analysis; and used basic analytical tools such as enterprise budgets, cash flow projections, financial statements, whole-farm and detailed enterprise analyses, summary analysis, and whole-farm planning.

As a member of the area vo-tech school farm business management adult education program, I agree to fulfill the following responsibilities:

- I understand that the vo-tech farm business management adult education program is a comprehensive program that has a specific curriculum, courses of study offered in a definite sequence, and continuity between courses of study to promote attainment of farm business and family goals and objectives.
- I will keep records accurate and up-to-date to the best of my ability using the record book provided by instructor.
- I will complete said record book for summary and analysis at the end of each year.
- I understand that all individual farm record data collected through this program will be kept confidential and that this data will be made available on a summary basis to all class members, farm management specialists, and instructors for education purposes.
- I will pay an enrollment fee that will be negotiated annually.
- I will *regularly* attend monthly class meetings.

- I will schedule individualized on-farm instruction with instructor regularly.
- I have definite and ongoing plans of continuing in the business of farming.

As an instructor representing the Area Vo-tech School Farm Business Management Adult Education Program, I agree to fulfill the following responsibilities:

- I will provide a record system to fit the individual's situation.
- I will assist the class member in establishing a records system and in preparing closing entries and other forms needed for the summary and analysis.
- I will conduct one class meeting per month on farm management topics.
- I will schedule individual on-farm instruction to support the total education program.
- I will check the class member's record book at regular intervals for its accuracy and completeness.
- I will assist the class member in applying the basic analytical tools of farm management.
- I will provide the class member with a copy of the completed summary and analysis of the class member's farm and of the area vo-tech farm business management program.
- I will discuss with the class member the results of this analysis and how it may be used to further improve the farm business.

Farm Operator _____

Farm Operator's Spouse (if appropriate)

_____

Area Vo-Tech School Farm Business Management Instructor
Representing Area Vo-Tech School

_____

DETERMINE CURRENT LEVEL OF EFFECTIVENESS IN TIME MANAGEMENT

INTRODUCTION

A careful look at existing time management habits is useful in determining the kind of changes that you need to make for greater effectiveness. This handout is designed to help you determine your current level of effectiveness in time management. Rate each factor with complete honesty.

DIRECTIONS

Circle the appropriate rating for each statement. When all statements are rated, review your ratings and determine your personal profile for time management effectiveness. Are the majority of your time management practices satisfactory?

SCALE

1 = Poor — Very much improvement needed

2 = Fair — Much improvement needed

3 = Good — Some improvement needed

4 = Excellent — Little improvement needed

5 = Outstanding — No improvement needed

Time Management Practices	Rating				
Set personal goals	1	2	3	4	5
Establish priorities	1	2	3	4	5
Develop daily time management plan	1	2	3	4	5
Implement daily time management plan	1	2	3	4	5
Achieve results daily	1	2	3	4	5
Organize work	1	2	3	4	5
Control unwanted interruptions	1	2	3	4	5
Delegate	1	2	3	4	5

Time Management Practices	Rating				
Concentrate in a variety of settings	1	2	3	4	5
Avoid procrastination	1	2	3	4	5
Retrieve needed information quickly	1	2	3	4	5
Say "no" when necessary	1	2	3	4	5
Use "down" time resourcefully	1	2	3	4	5
Keep up to date	1	2	3	4	5
Streamline tasks	1	2	3	4	5
Spend quality time with others	1	2	3	4	5
Spend appropriate quantity of time with others	1	2	3	4	5
Accomplish work during peak energy times	1	2	3	4	5
Use communication skills (sending and receiving)	1	2	3	4	5
Deal with stress	1	2	3	4	5
Control personal time	1	2	3	4	5
Use goal-directed behavior	1	2	3	4	5
Break down larger tasks into more manageable segments	1	2	3	4	5
Respond appropriately to deadlines imposed by others	1	2	3	4	5
Respond to self-imposed deadlines	1	2	3	4	5
Organize work space	1	2	3	4	5
Control telephone time	1	2	3	4	5
Control "after-hours" time	1	2	3	4	5
Allow time for thinking and planning	1	2	3	4	5

COMPLETE A "THINGS TO DO" LIST

The purpose of this handout is to encourage you to develop a written list of activities that need to be completed.

Write activities that you wish to accomplish tomorrow under the heading "things to do today." Next, rate the importance of the activity. Write an "A" for activities that *must* be accomplished tomorrow and are essential for completing your goals and objectives, a "B" for activities that you would like to accomplish tomorrow but that could be put off until another day, and a "C" for activities that you could do any time. As you complete activities, write your initials in the last column.

THINGS TO DO

Things to do Today	Importance	Initials

ASSIGNMENT SHEET 1	ORIENTATION	I

OBJECTIVE 24

Complete enrollment form.

The purpose of this assignment sheet is to provide the farm business management instructor with some background information pertinent to each class member.

Name _____

Date of Birth _____

Social Security No. _____

Spouse's Name _____

Spouse's Date of Birth _____

Spouse's Social Security No. _____

Mailing Address _____

_____

_____

Home Phone _____

Business Phone _____

Other Business _____

_____

Location of Home _____

_____

_____

Location of Farm _____

_____

ASSIGNMENT SHEET 2	ORIENTATION	I

NAME _____ SCORE _____

OBJECTIVE 25

Determine the basic values of the farm family for setting goals and objectives.

INTRODUCTION

The purpose of this assignment sheet is to assist the farm family in determining their attitudes toward various goals and objectives. Each of the farm family team members should complete the assessment form individually and then meet to determine the consensus of the team's opinion.

Use the form that follows to determine the basic values of the farm family for setting goals and objectives. Complete the form using the rating scale below. Place the appropriate rating in the correct column.

SCALE: 5—Very important

4—Important

3—Desirable

2—Not important

1—Not needed

Goals and Objectives	Husband	Wife	Family Member	Family Member	Team Consensus
Owning a farm					
Education for children					
Building a new home					
Freedom from debt					
A good retirement nest egg					
A high level of peace of mind					
Regularly planned family recreation					
A high degree of self-discipline					
Nearly new machinery					
Sharing love between family members					
Being neighborly					
Good registered breeding stock					
Adequate medical care					
Plenty of wholesome food					
Adequate life insurance					
Prestige as a farm family					
Books and magazines to read					
Attractive clothing					
Time to watch television					
Well-kept farmstead or ranch					
Other					

ASSIGNMENT SHEET 3	ORIENTATION	I

NAME _____ SCORE ____

OBJECTIVE 26 **Establish farm business and family goals.**

INTRODUCTION

This assignment sheet is the yardstick for the entire program. Clear goals and well-defined objectives provide an outline for guiding the use of available resources, setting priorities, and measuring success. It is essential that adequate time and consideration be given to completing this assignment sheet.

Writing goals constitutes a two-step process. First, goals must be clarified. These are the material and personal aspirations the class member feels are most important. Goals describe purposes for the farm business and family in non-qualifiable terms. Next, objectives are established to assist the class member in attaining the goals. These must be specific, measurable, realistically attainable, and constructive, and should represent an improvement over the present level of achievement.

Goals and objectives may be family or farm business oriented. They also might apply to different time periods: *short term* is within 12 months, *intermediate term* is between one and seven years, and *long term* is over seven years.

Consider the following points in clarifying the class member's goals and establishing objectives:

- Stress that all family members should participate.
- Recognize individual and family differences.
- Recognize farm and family characteristics.

  EXAMPLES: Size of family; stage in family life cycle; size and type of farm business; social, cultural, and religious values; financial structure of farm business

- Recognize time periods.
- Select goals in terms of available resources.
- Know that competition between goals is normal.
- Modify goals and objectives as resources and ideals change.

FAMILY AND FARM BUSINESS GOALS

What do you as a family consider most important for your future welfare, happiness, and security? One of the steps for improving the farm business is to clarify what is wanted. Is it community involvement, a retirement plan, college education for the children, a comfortable home, or a partnership farming operation? You may know of things you have wanted as a family, but it takes considerable thought and discussion among family members to agree upon what is most important and which things come first.

DIRECTIONS

Write below the goals that you want for your family and farm business. Identify them in order of importance. Be sure to involve all family members in making these decisions.

Family Goals
Short-term (Less than one year)
Intermediate-term (One to seven years)
Long-term (Over seven years)
Farm Business Goals
Short-term (Less than one year)
Intermediate-term (One to seven years)
Long-term (Over seven years)

ASSIGNMENT SHEET 4	ORIENTATION	I

NAME _____ SCORE ____

OBJECTIVE 27 **Develop goals and objectives for farm business and family.**

INTRODUCTION

The size and complexity of your farm operation will determine how in-depth your objectives need to be. Each objective must be realistic, attainable, and measurable and each objective must be compatible with each other objective.

Here are some general categories of goals, with some examples of various types of objectives that you might want to consider.

- Volume and profit goals, production objectives, profit objectives, return on investments, return on equity capital

  EXAMPLE: Increase cash grain sales by 12 percent per year over five years

- Growth and diversification goals, new enterprises, acquisitions or expansion, improved production methods

  EXAMPLE: Acquire enough rangeland to support a 200 head cow/calf operation.

- Financial goals, credit needs, cash flow objectives, current and future income objectives

  EXAMPLE: Increase borrowing capacity to $2.3 million for land acquisition in 1990.

- Organizational and management goals, changes in organizational structure, plans for management or ownership succession

  EXAMPLE: Incorporate and transfer 5 percent of stock to sons each year for ten years.

An objective needs to be a specific "what." You will want to word each objective as specifically as possible, and to reword and redefine goals as necessary.

Some objectives may need further defining if several farm enterprises or operations will affect the accomplishment of the objective. These sub-objectives are really the strategies of their major objectives.

EXAMPLE:

Objective: Increase gross profits by 100 percent by 1988.

Sub-objective: (Dairy) increase milk sales 15 percent per year for five years; and increase gross profit 20 percent per year for five years.

Now that you know where you want to go, make plans to get there These sub-objectives are the "how." They must be specific, measurable, realistically attainable, and constructive and must represent an improvement over the present level of achievement.

EXAMPLE:

Objective: Increase milk sales by 40,000 pounds per year for five years.

Sub-objectives:

Increase herd size by two cows per year.

Increase herd average by 500 pounds per year.

Objective: Hold cost increases to 11.5 percent per year.

Sub-objectives:

Construct new 25-by-60-foot silo in 1986 and complete switch from bales to haylage.

Increase alfalfa to 6.5 tons per acre over five years.

Test all forage for protein content and follow university feeding program.

Even the best plans are worthless if they are filed away and not used. Goals and objectives are a working tool. After the first year of your plan, you will want to measure your progress and see if your goals are still realistic. Are your objectives working, or are new approaches required?

Because conditions change, you must change. A plan does not mean that you are locked in. Do not abandon your overall goals; just adjust the means or the plan for getting there.

DIRECTIONS

On the following pages, develop objectives for the farm business and family goals decided upon in Assignment Sheet 3. Your first plan may not be a masterpiece, but it is a start. You will be surprised with how even a simple plan can help you achieve and measure your progress toward your goals and objectives.

NOTE: Objectives should be set in quantitative terms in order to measure progress toward their attainment. See example on the following page. Evaluate the achievement of your objectives at the end of the year.

Remember the old saying: "How are you going to get there if you don't know where you are going?"

Example:

GOALS	OBJECTIVES	Evaluation										COMMENTS
		Difficulty of the Objective					Achievement of the Objective					
Family		Extremely Difficult	Difficult	Some Difficulty	Easy	Extremely Easy	Exceeded	Achieved	Partially Met	Little Done	No Activity	
Provide educational fund for family members	Deposit $50.00 a month in educational savings account for son's college education		X					X				Deposited $600.00 during year Difficult to deposit $50.00 each month
Improve home	Build new home by 1987	X									X	Net farm income has been very low
Farm Business												
Increase income	Increase net farm income by 10 percent each accounting period	X							X			Drought two years ago; low prices this year; may need to change to a more realistic objective
	Achieve $150.00 returns above total operating costs for 1986 peanut crop		X				X					Achieved $176.30 returns above total operating costs
Increase number of acres farmed	Rent additional 160 crop acres in 1986			X				X				Rented 160 acres; cash rent; good wheat crop
	Purchase 160 acres by 1987	X								X		Contacted real estate broker

FARM BUSINESS

GOALS	OBJECTIVES	Evaluation										COMMENTS
		Difficulty of the Objective					Achievement of the Objective					
		Extremely Difficult	Difficult	Some Difficulty	Easy	Extremely Easy	Exceeded	Achieved	Partially Met	Little Done	No Activity	

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FARM BUSINESS

GOALS	OBJECTIVES	Evaluation										COMMENTS
		Difficulty of the Objective					Achievement of the Objective					
		Extremely Difficult	Difficult	Some Difficulty	Easy	Extremely Easy	Exceeded	Achieved	Partially Met	Little Done	No Activity	

FAMILY

GOALS	OBJECTIVES	Evaluation										COMMENTS
		Difficulty of the Objective					Achievement of the Objective					
		Extremely Difficult	Difficult	Some Difficulty	Easy	Extremely Easy	Exceeded	Achieved	Partially Met	Little Done	No Activity	

FAMILY

GOALS	OBJECTIVES	Evaluation										COMMENTS
		Difficulty of the Objective					Achievement of the Objective					
		Extremely Difficult	Difficult	Some Difficulty	Easy	Extremely Easy	Exceeded	Achieved	Partially Met	Little Done	No Activity	

ASSIGNMENT SHEET 1	Evaluation of this assignment sheet should be based upon the class members' completion of the assignment sheet.
ASSIGNMENT SHEET 2	The class members should successfully complete the assignment sheet by carefully determining the basic values of their farm family. Evaluate this assignment sheet by verifying that the class members have completed the form.
ASSIGNMENT SHEET 3	Evalute the class member's completed assignment sheet by verifying that the form has been completed entirely.
ASSIGNMENT SHEET 4	Evalute the class member's completed assignment sheet by verifying that the form has been completed entirely.

WRITTEN TEST	ORIENTATION	I

NAME _____ SCORE ____

OBJECTIVE 1

Match to their correct definitions terms associated with farm business management and goal setting. Write the correct letters in the blanks.

__1. Combination of economic analysis and business control and the management of biological processes within the context of changing technical, legal, and human environments

__2. Instructional materials from which information is presented in the classroom or used in on-farm instruction

__3. Planned sequence of learning activities

__4. Scheduled, planned individual learning activity that occurs at the class member's farm or ranch

__5. Scheduled, planned group learning activity that occurs at a specified meeting place

__6. Effective control of time

__7. Broad statements that are results of completing all objectives

__8. Specific statements that are measurable and realistically attainable

__9. Person who earns a living by farming or ranching; one who operates or manages a farm or ranch

a. Options
b. Spouse
c. Class meeting
d. Farm business management
e. Syllabus
f. Individual on-farm instruction
g. Time management
h. Objectives
i. Farmer
j. Goals
k. Needs
l. Curriculum
m. Course of study

OBJECTIVE 2

Select from the following list components of a strong farm business management adult education program. Write an "X" in the blank before each correct answer.

__ 1. Goal orientation

__ 2. Established data base

__ 3. Consulting service

__ 4. Farm record analysis

__ 5. No class meetings

__ 6. Planned course of study

__ 7. Personalized instruction

__ 8. Technical support

__ 9. Record-keeping service

OBJECTIVE 3

State the primary objective of a farm business management adult education program.

_____

_____

OBJECTIVE 4

State three basic questions a farm business management program should answer.

_____

_____

_____

OBJECTIVE 5

State three benefits of a farm business management program.

_____

_____

_____

OBJECTIVE 6

Match areas of farm business management instruction to their correct descriptions. Write the correct numbers in the blanks.

__1. Develops skills in keeping accurate, up-to-date records for use in analyzing the farm business, making decisions, and keeping history of farm business performance

__2. Helps to maximize after-tax income and stabilize income from year to year

__3. Assists the farm family to determine financial condition of the farm business at the present time, to determine financial progress over a series of years, and to determine strengths and weaknesses of the farm business

__4. Enables the farmer or rancher to select an appropriate course of action in keeping with the business's financial position, attitude toward risk, and the goals and objectives of the farm and family

__5. Develops and evaluates alternative farm plans using available resources and planning tools to attain farm business and family goals and objectives

__6 Applies economic principles to the farm business

__7. Provides strategies used for successfully achievement of farm business goals and objectives

a. Analysis of farm records

b. Probability factors

c. Farm business records and financial statements

d. Management

e. Investment analysis

f. Economic concepts

g. Income tax

h. Sales tax

i. Analysis of needs

j. Marketing

k. Management techniques

OBJECTIVE 7 **State the roles of a farm business management program instructor.**

_____

_____

_____

OBJECTIVE 8 **Select from the following list elements of farm business management program organization.** Write an "X" in the blank before each correct answer.

__ 1. Unlimited class size

__ 2. Specific units of instruction offered in a definite sequence over a specified period of time

__ 3. Instruction in the classroom only

__ 4. Continuity between units of instruction leading toward accomplishment of farm business and family goals and objectives

__ 5. Limited class size

__ 6. Units of instruction offered as needed

__ 7. Instruction in the classroom and on the farm

__ 8. Enrollment fees to help pay for instructional materials

OBJECTIVE 9 **List three factors to consider in decision-making.**

_____

_____

_____

OBJECTIVE 10 **Discuss strategies for decision-making.**

_____

_____

_____

_____

_____

_____

OBJECTIVE 11 **Arrange in order steps in a systematic decision-making process.** Write a "1" before the first step, a "2" before the second step, and so on.

___ Gather information about solutions

___ Put decision into effect

___ Evaluate solutions

___ Define problem

___ Evaluate, accept consequences, and do follow-up

___ Make decision consistent with goals and objectives

OBJECTIVE 12 **State two advantages of systematic decision-making process.**

_____

_____

OBJECTIVE 13

Match types of activities a farmer faces to their correct descriptions. Write the correct numbers in the blanks.

__ 1. Activities that spring from yesterday's problems, not from today's opportunities	a. Important	
__ 2. Activities that bring results and that are most essential to long-range goals	b. Other	
__ 3. Activities that must be performed but are not critical enough to rate as important	c. Urgent	
__ 4. Activities that, when completed, contribute nothing important	d. Routine	
__ 5. Activities that interfere with getting anything done	e. Required	

OBJECTIVE 14

Arrange in order the five-step process of time management. Write a "1" before the first step, a "2" before the second step, and so on.

___ Measure the use of time

___ Control time wasters

___ Determine where time should be spent

___ Order priorities

___ Determine how time is currently being spent

OBJECTIVE 15

State four suggestions for organizing a schedule.

_____

_____

_____

_____

OBJECTIVE 16 **List three advantages and three disadvantages of setting goals and objectives.**

Advantages

_____

_____

_____

Disadvantages

_____

_____

_____

OBJECTIVE 17 **List five examples of farm business and family goals.**

_____

_____

_____

_____

_____

OBJECTIVE 18 **Discuss reasons for setting goals and objectives.**

_____

_____

_____

OBJECTIVE 19 **State four guidelines for setting goals and objectives.**

_____

_____

_____

_____

OBJECTIVE 20 **Distinguish among short-term, intermediate-term, and long-term goals and objectives.** Write an "S" for short-term, an "I" for intermediate-term, and "L" for long-term goals.

___ 1. Requires more than seven years for achievement

___ 2. Requires less than one year for achievement

___ 3. Provides sense of direction

___ 4. Requires one to seven years for achievement

___ 5. Provides basis for long-term goals and objectives

___ 6 Provides immediate satisfaction

OBJECTIVE 21 **List two factors for determining priority of goals and objectives.**

_____

_____

OBJECTIVE 22 **List three examples of goals that compete for time, money, and earnings.**

_____

_____

_____

OBJECTIVE 23

Select from the following list techniques for achieving goals and objectives. Write an "X" in the blank before each correct answer.

__ 1. Stick to goals and objectives regardless of situation

__ 2. Check progress regularly

__ 3. Use saved time and effort wisely and effectively

__ 4. Use management-by-crisis techniques

__ 5. Organize efforts on a "things to do" work list

__ 6 Do not set priorities

__ 7. Check for slow or non-moving activities

__ 8. Modify goals and objectives as resources change or as the family is able to use resources more efficiently

NOTICE:

Test questions 24 through 27 list the assignment sheets. They are not part of the test. If they have not been completed, check with your instructor.

OBJECTIVE 24 **Complete enrollment form.** SCORE ____

OBJECTIVE 25 **Determine the basic values of the farm family for setting goals and objectives.** SCORE ____

OBJECTIVE 26 **Establish farm business and family goals.** SCORE ____

OBJECTIVE 27 **Develop objectives for farm business and family goals.** SCORE ____

WRITTEN TEST ANSWERS	ORIENTATION	I

OBJECTIVE 1

1. d
2. l
3. m
4. f
5. c
6. g
7. j
8. h
9. i

OBJECTIVE 2

1, 2, 4, 6, 7, 8

OBJECTIVE 3

To improve the effectiveness of the farming operation in order to assist farm families to achieve their farm business and family goals and objectives

OBJECTIVE 4

Answer should include the following

- Where am I?
- Where do I want to be?
- How can I best get there from here?

OBJECTIVE 5

Answer should include any three of the following

- Improves class member's ability to survive as a farmer or rancher
- Allows class member to identify farm business and family goals and objectives
- Increases class member's knowledge about farm business performance
- Allows class member to develop a strong and stable agriculture, which gives strength to the community

OBJECTIVE 6

1. c
2. g
3. a
4. j
5. e
6. f
7. k

OBJECTIVE 7

- To train farm families to recognize their farm problems
  - — Provide a record system to fit the class member's situation
  - — Assist in establishing a record system, preparing closing entries and other forms needed for the analysis of the business, and checking accuracy and completeness of records
- To train farm families to evaluate alternatives
  - — Provide individual on-farm instruction to support the total educational program
  - — Assist the class member in applying the basic analytical tools of farm management
- To train farm families to evaluate related facts obtained from farm records
  - — Assist the class member in completing an analysis of the farm business
  - — Provide the class member with a copy of the *Farm Business Management Annual Report*
  - — Discuss with the class member the results of this analysis and how it may be used to further improve the farm business

OBJECTIVE 8

2, 4, 5, 7, 8

OBJECTIVE 9

- Complexity of decision
- Frequency of decision
- Variables

OBJECTIVE 10

Discussion should include the following

- Reduce number of daily decisions
- Collect data and compare alternatives
- Order priorities from least to most important

OBJECTIVE 11

2, 5, 3, 1, 6, 4

OBJECTIVE 12

Answer should include any two of the following

- Achievement of outcomes closely related to goals
- Timeliness in decision-making
- Better-organized thought processes

OBJECTIVE 13

1. c
2. a
3. e
4. d
5. b

OBJECTIVE 14

3, 5, 2, 4, 1

OBJECTIVE 15

Answer should include any four of the following

- Get an early start
- Streamline paperwork
- Start tomorrow's tasks today
- Keep a notebook handy
- Keep your time schedule flexible for priority activities
- Take charge of your emotions
- Get regular exercise

OBJECTIVE 16

Answer should contain three advantages and three disadvantages

Advantages

- Shows where you are going
- Distinguishes between major and minor goals and objectives
- Gives purpose and direction to decisions and actions
- Prepares you to meet the future

Disadvantages

- Takes time to decide on goals and objectives
- Is difficult to come to grips with the many, and often conflicting, goals and objectives
- May lead to indecision or lack of confidence when trying to determine priorities
- Becomes more difficult as problems become more numerous

OBJECTIVE 17

Answer could include any five of the following

- Owning a farm
- Building a house
- Providing education for children
- Control of a larger farm business
- Being a good neighbor
- Having more leisure time
- Being a community leader
- Improving the family's standard of living
- Having a neat, well-kept farmstead or ranch

OBJECTIVE 18

Discussion should include the following

- To determine what is worthwhile
- To explain why one thing and not another is done
- To create permanent goals and objectives

OBJECTIVE 19

Answer should include any four of the following

- Should be your goals and objectives
- Should be written
- Should be realistic and attainable
- Should have target dates
- Should be compatible
- Should not be activities

OBJECTIVE 20

1. L	4. I
2. S	5. I
3. L	6. S

OBJECTIVE 21

Answer should include any two of the following

- Dollar value
- Time
- Importance
- Resources
- Personal preferences

OBJECTIVE 22 Answer should include any three of the following

- Improving capital base
- Scheduling time to manage the business
- Providing family comfort or convenience
- Improving farmstead or ranch property
- Family security
- Providing time for recreation
- Repairing equipment

OBJECTIVE 23 2, 3, 5, 7, 8

OBJECTIVE 24 Refer to answers to Assignment Sheet 1

OBJECTIVE 25 Refer to answers to Assignment Sheet 2

OBJECTIVE 26 Refer to answers to Assignment Sheet 3

OBJECTIVE 27 Refer to answers to Assignment Sheet 4

OBJECTIVE SHEET	INVENTORIES	II

UNIT OBJECTIVE

After completing this unit, the class member should be able to complete a beginning inventory. The class member will demonstrate these competencies by completing assignment sheets and written test with a minimum of 85 percent accuracy.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to

1. Match to their correct definitions terms associated with inventories and net worth statements.
2. State reasons for keeping inventory records.
3. Select from a list factors that determine inventory date.
4. List items to be included in an inventory.
5. List the parts of an inventory.
6. Select from a list guidelines for making a physical count.
7. Match to their correct descriptions methods of valuation for farm inventories.
8. Distinguish between current value and book value methods of valuation.
9. Select from a list guidelines for estimating current inventory values of machinery and equipment.
10. State guidelines for estimating current inventory values of livestock.
11. Match types of expenses to the correct guidelines for estimating their current inventory values.
12. State guidelines for estimating current inventory values of feed, crops, and supplies.
13. State guidelines for crop inventory under government loan.
14. Select from a list guidelines for determining cash balances.
15. Distinguish between inventory of receivables and inventory of payables.

16. Complete a sample beginning inventory. (Assignment Sheet 1)

17. Complete an actual beginning inventory. (Assignment Sheet 2)

PREPARATION

Order materials to supplement unit.

- Make copies of the appropriate inventory forms for each class member.

  NOTE: Additional inventory forms may also be purchased separately by contacting the Oklahoma State Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, Resale Division, 1500 West Seventh Avenue, Stillwater, OK 74074. For in-state orders call 1-800-522-5810. Out-of-state instructors should call 1-800-654-4502. Order number **AG9015**.

DELIVERY

Introduction

- Emphasize the importance of an accurate and complete beginning inventory.

  EXAMPLES: Beginning net worth statement, whole farm, and detailed enterprise analyses, beginning cash balance on Cash Flow Summary

- Emphasize the importance of gathering physical data.

  EXAMPLES: Returns per hundredweight, bushels per acre, feed cost per head, calving percentage, death loss, returns per any year

Objective 1

- Explain the importance of understanding the common terminology used in discussing inventories and net worth statements. You may wish to develop a crossword puzzle or word hunt to review terms after a class break.

Objective 2

- Emphasize whole-farm analysis and discuss how inventory is used for determining measures of performance.
- Point out the effect of inventories on obtaining credit, and the importance of complete and accurate inventories for determining net worth.

Objective 3

- Help the class members select the most appropriate inventory date. Point out that most class members enrolled in the farm business management program use January 1 as the inventory date.

Objective 4

- Point out that all owned assets and liabilities should be inventoried.
- Have class brainstorm possible items to be inventoried. List their suggestions on the chalkboard.

Objective 5

- Point out that of the two parts, valuation is the more difficult.

Objective 6

- Emphasize the need for accurate units of measurement (bushels, tons), particularly if detailed enterprise analysis is desired. Stress again the importance of consistently taking inventory as of a single day, i.e., January 1.

Objective 7

- Emphasize the importance of being conservative and consistent in determining methods of valuation.
- Encourage class members not to change values of intermediate-term and long-term assets in a given year.
- Discuss the effects of "paper" profits and losses on management decisions.

Objective 8

- Explain the advantages of using conservative and consistent current values.
- Point out reasons for using current value.

  EXAMPLES: Keeping financial statements on a current basis

  Keeping insurance at an acceptable level

  Providing an up-to-date picture of current investments in the farm business

- Emphasize reasons for using book values.

  EXAMPLES: Providing information for income tax management and estate planning

- Discuss recapture of depreciation as ordinary income and contingency tax liabilities.

Objective 9

- Explain that the inventory forms may also be used to set up a depreciation schedule, but that depreciation will be discussed in another unit.

Objective 10

- Use transparencies of breeding livestock and inventory and depreciation forms when discussing this objective. Point out that these forms are used only for purchased breeding livestock.

Objective 11

- Use transparencies to illustrate a real estate investment form. Explain that each form should include the land, as well as buildings and improvements on that land. Remind class members that each farm requires a separate form.

- Discuss income tax liability and selling expenses that need to be recognized if class members use current value of land.

Objective 12

- Emphasize the importance of a systematic approach for recording inventory. (Class members tend to be lax in this area.)

- Use a transparency to illustrate an inventory form for feed, stored and growing crops, and supplies.

Objective 13

- Open the discussion of this objective by stressing the importance of keeping abreast of new income tax laws and current government programs: different tax elections determine whether the crop is an asset, a liability, or neither.

Objective 14

- Emphasize the importance of the cash balance when using the Cash Flow Summary.

Objective 15

- Point out the difficulty that many class members have in determining what they owe and what others owe them. It is important that the beginning credit balance is correct for the Net Worth Statement and that the beginning cash balance is correct for the Cash Flow Summary.

APPLICATION

- Have class members complete Assignment Sheet 1. Point out that most class members will use current "as-is" market values because of financial statements provided to creditors.
- Have class members complete Assignment Sheet 2. Be sure that the class members use their own farm business operation to complete this assignment.

EVALUATION

Written test

- Explain to class members that they will be asked to demonstrate on the written test the actions listed in the specific objectives.
- Give unit test.

  NOTE: The unit test may be given in sections if desired.
- Evaluate class members on assignment sheet activities if not previously done.
- Reteach and retest if necessary.
- Complete appropriate section of competency profile.
- Review individual and group performance in order to evaluate teaching methods. Adjust scope, sequence, or instructional approaches for additional lessons as required.

UNIT REFERENCE

- Steward, Jim. *Farm Business Management I.* Stillwater, Oklahoma: State Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, 1984.

OBJECTIVE 1

Match the terms associated with inventory and net worth statement to their correct definitions.

- **Adjusted tax basis**—Original cost of an asset, plus the value of improvements or alterations, less the cost of depreciation, losses, or depletion
- **Asset**—Item or resource controlled by the farm business
- **Collateral**—Livestock, land, and other personal property used to secure a loan
- **Inventory**—Assets used in or claimed by the farm business
- **Liability**—Financial claim against the farm business
- **Liquidity**—Farm business's capacity to generate sufficient cash to meet its financial obligations as they fall due
- **Net worth**—Value of assets not claimed by individuals or firms outside the farm business or the owner's claim on the assets

  NOTE: Net worth is sometimes called *owner's equity*.
- **Net worth statement**—Sheet that shows the financial condition at a definite point in time and lists all assets, values of assets, and liabilities of the farm business

  NOTE: Net worth statements are also known as *balance sheets*, *financial statements*, or *statements of financial condition*.
- **Solvency**—Farm business's ability to meet long-run claims against the business

OBJECTIVE 2

State reasons for keeping inventory records.

- To obtain a true picture of financial situation

  EXAMPLE: Net worth statement
- To reflect noncash income and expenses

  EXAMPLES: Income statement, changes in inventories

- To provide a management tool

  EXAMPLE: Whole farm and detailed enterprise analysis

- To place values on farm assets

  EXAMPLE: Basis for insurance

- To complete estate planning and settlement
- To obtain credit

  EXAMPLES: Financial statements, collateral

OBJECTIVE 3 **Select from a list factors that determine inventory date.**

- Significance in farm operation

  EXAMPLES: Date when farm work begins for year's crop, date tenant moved to farm, date of lease renewal, date livestock shifted from winter feed to summer pasture

- Convenience to operator

  EXAMPLES: Desirable when little else to do, period where there is small quantity of assets, period when completing tax information

  NOTE: For most farms, January 1 seems to be the most convenient date because of tax and management purposes.

OBJECTIVE 4 **List items to be included in an inventory.**

- All unsold items at end of tax year
- All livestock and poultry held primarily for sale
- Livestock held for draft, breeding, dairy, or sporting purposes— whether raised or purchased
- All harvested and purchased farm products held for sale or for feed or seed
- Growing or standing crops
- Machinery and equipment
- Buildings
- Land

- Cash balances
- Accounts receivable
- Accounts payable
- Prepaid expense items

  EXAMPLES: Prepaid insurance, prepaid cash net

OBJECTIVE 5 **List parts of an inventory.**

- Physical count
- Valuation

OBJECTIVE 6 **Select from a list guidelines for making a physical count.**

- Measure quantities of items in commonly used units

  EXAMPLES: Bushels for small grains, hundredweight and head for livestock, tons for hay, pounds and bales for cotton

  NOTE: Converting measured quantities into meaningful units can be troublesome. It may be necessary in the inventory process to measure the quantity of grain on hand in cubic feet, and count the number of bales of hay in the barn. Tables and conversion formulas that facilitate this process are available. Even though measurement under this method is not exact, it is usually accurate enough for practical purposes.

- Group like items

  EXAMPLES: Stocker steers, raised sows, small hand tools

  NOTE: Grouping like items may be dictated by the farm analysis the operator wishes to make. Livestock is usually grouped under one classification, such as beef, dairy, or swine and then is further divided by type, age, or purpose.

- Take inventory on a single day **or** as of a single date

  EXAMPLE: If inventory date is December 31 but the physical count is not made until January 5, a calf born on January 2 should not be included in the inventory.

OBJECTIVE 7

Match methods of valuation for farm inventories to their descriptions.

- Market cost—Price at which an item was purchased

  EXAMPLES: Feed, fuel, fertilizer, seed, supplies

  NOTE: This method works well for items that have been purchased recently and will be used within a relatively short period of time.

- **Net market price**—Value of an item at the marketplace, less transportation and marketing charges

  EXAMPLES: Grain on hand, raised breeding livestock, hay on hand

  NOTE: Net market price is the money the operator brings home from the sale of a product. This method works well for items for which a well-established market price exists.

- **Cost or market value**—Lower of production costs; original purchase price compared to current market price

  EXAMPLES: Feed, grain on hand, farm machinery, raised livestock

  NOTE: This method is probably too conservative when prices are increasing and not conservative enough when they are falling.

- **Farm production costs**—Actual amount invested in cost of producing a farm asset

  EXAMPLES: Raised breeding livestock, growing crops

  NOTE: Production costs should not include profit, interest on investment, or the opportunity cost of the class member's labor and management. Generally, this method is most useful when valuing assets that have been produced on the farm and will be used in other farm activities.

- **Cost minus depreciation**—Assets that provide services to the farm business for a period longer than one year and become less valuable in process

  EXAMPLES: Machinery, equipment, purchased breeding livestock, buildings, fences

- **Cost minus depletion**—Asset values that change in accordance with amount resource is displaced or removed

  EXAMPLES: Oil and gas wells, gravel pit, timber stand

OBJECTIVE 8

Distinguish between current value and book value methods of valuation.

NOTE: Values and methods of valuation of financial statement items should reflect the purpose for which the statement will be used. Regardless of the methods selected to value assets, one should use the same method consistently. Consistency eliminates bias when assessing the financial progress and performance of the farm business. It also minimizes unearned profits and losses.

Current value

- Values all assets at a fair net market value

  NOTE: Value where there are ready, willing, and able buyers and sellers.

- Used to obtain or establish credit

Book value

- Values assets on an adjusted tax basis
- Used for tax purposes and for tax estate planning

OBJECTIVE 9

Select from a list guidelines for estimating current inventory values of machinery and equipment.

- Value at cost less depreciation

  NOTE: With inflation at the present rate, frequently the current market value of machinery may be much higher than the remaining book value of undepreciated balance.

- Value at conservative, current, "as-is" market value

  NOTE: Current market values may be obtained from a local implement dealer or from trade publications that list current values.

EXAMPLE: The information below, and the sample completed inventory form on the following page, outline the procedure for completing a beginning inventory of machinery and equipment.

— Enter date each item was acquired

NOTE: If item was built by farmer, enter date item was first included in inventory.

— Enter description of item

EXAMPLES: JD 4420 tractor, IH 16-foot offset disk; 1982 Ford 1/2-ton pickup

— Estimate inventory value and enter in appropriate column

— Leave one line at bottom of page to total inventory values

NOTE: Farmers with more than twenty-four items can add pages so that a complete inventory can be taken.

— Write the disposition of an item on the appropriate line when an item is no longer used

EXAMPLES: Junked; depreciated out; traded in on new 4430 tractor

FORM 3.1

FORM 3.1 PAGE DEPRECIATION SCHEDULE: MACHINERY AND EQUIPMENT

LINE	DATE ACQUIRED	ITEM DESCRIPTION KIND OF MACHINE, MAKE, MODEL, SIZE	ESTIMATED CURRENT COST INFORMATION START 19XX	START 19	NG OF UE OF ADE-IN	CASH DIFF PAID	TOTAL COST BASIS	INVEST CREDIT	ADJUST-MENTS	LINE
1	12/79	20-foot cattle feeder	500							1
2	3/80	Portable Corral	1,100							2
3	12/80	Odessey for Cattle	995							3
4	6/81	Versatile Tractor	40,000							4
5	9/81	Big Ox Plow	950							5
6	1/82	Eight-Row Cultivator	3,600							6
7										7
22										8
23										23
24			47,145							24
25		TOTALS FOR THIS PAGE								25
	1	2	3	6	7	8	9	10	11	12

OBJECTIVE 10

State guidelines for estimating current inventory values of livestock.

NOTE: A farm business manager must develop a systematic approach for completing a beginning inventory of livestock on the farm. One approach is to use an inventory-of-livestock form. All livestock should be entered on this form, including purchased breeding animals.

- Use a long-term average value for raised breeding animals

  NOTE: This value should remain constant for several years even though the market will fluctuate.

- Value purchased breeding animals at cost less depreciation

  NOTE: The class member will have to estimate weight.

  EXAMPLE: The information below outlines the procedure for completing a beginning inventory of breeding livestock.

  — Enter date each animal or group of animals was acquired

  — Enter description of animal(s)

  EXAMPLES: Cross-bred cows, registered Angus bull

  — Enter total number of head on hand at start of year

  — Estimate inventory value and enter in appropriate column

FORM 3.3

FORM 3.3 PAGE DEPRECIATION SCHEDULE ___ LIVESTOCK FOR BREEDING

LINE	Date Acquired	Item Description	Head in Lot When Acq	ESTIMATED CURRENT CASH VALUE Per Lot Start 19XX	Start 19	Start 19	Start 19	A Life	Method	Annual Deprec. % or $	START Per Head Deprec. in Prior Years	Remaining Book Value	Head On Hand	LINE
1	1/86	Bred Heifers	30	10,500										1
2	1/87	Bred Heifers	20	7,200										2
3	1/88	Angus Bull	1	750										3
4														22
23														23
24														24
25		TOTALS FOR THIS PAGE		18450										25
	1	2	3	4		10	11	12	13	14	15	16	17	18

NOTE: The only livestock entered on these forms are purchased breeding animals. Do not enter raised breeding animals because their costs were deducted under feed, veterinary medicine, etc. as they were raised. Also, do not enter livestock purchased for resale, such as stocker calves and feeder pigs (FORM 3.7).

- Value market animals at current price less cost of marketing
- Value livestock purchased for resale at purchase cost

EXAMPLE: The information below outlines the procedure for completing Form 3.7. (See next page)

— List all livestock purchased for resale for tax purposes and inventory as they are acquired and sold.

— Enter on form at time of transaction and transfer figures to the appropriate farm receipt and farm expense section for cash basis accounting.

FORM 3.7

FORM 3.7 — PURCHASED FOR RESALE

KIND: Feeder Pigs

	PURCHASED (from FORM 2.5 col. 4B)			SALES (from FORM 1.5 col. 1F)			
	Date	Description	Amount	Date	Description	Amount	
1	3-19xx	320 hd. avg. wt. 88 lbs.	$15,510	8-19xx	320 hd 240 lbs.	$32,256	1
2							2
3							3
4							4
5							5
6							6
7							7
8							8
9							9

KIND

	PURCHASED (from FORM 2.5 col. 4B)			SALES (from FORM 1.5 col. 1F)			
	Date	Description	Amount	Date	Description	Amount	
1							1
2							2
3							3
4							4
5							5
6							6
7							7

EXAMPLE: The information below outlines the procedure for completing a beginning inventory of livestock (Form 3.8).

— Group like kinds of livestock eg. beef, swine, dairy

— Group according to use eg. breeding, non-breeding

— Group according to sex eg. cows, heifers, bulls, steers

— Enter total head for each line

— Estimate total weight and enter on appropriate line

— Estimate price per unit and enter on appropriate line

REMEMBER: Price may be per head or per hundredweight.

— Estimate inventory value and enter on appropriate line

— Compute sums for breeding and non-breeding; total for group of livestock

— Enter total number of head on hand at start of year

FORM 3.8

FORM 3.8 **INVENTORY OF LIVESTOCK**

LINE		START 19___ No. Head	TOTAL WT.	Price Per Unit	TOTAL VALUE	No. Head	T	START 19___ No. Head	TOTAL WT.	Price Per Unit	TOTAL VALUE	LINE
	BEEF											
	BREEDING BEEF		cwt.						cwt.			
1	Purchased											1
	Raised											2
	TOTAL Beef											10
	OTHER: Swine											
	BREEDING											
	Purchased											1
2	Raised Sows	85	8750	.40	3500							2
3												3
4	TOTAL BREEDING	85	8750	XXX	3500							4
	NON-BREEDING											
	Purchased Pigs	320	28800	.55	15,510							5
6	Raised Pigs	195	2900	[illegible]	3900							6
7	Hogs	56	11400	.59	6726							7
8												8
9	TOTAL NON-BREEDING	571	43100	XXX	26136							9
10	TOTAL	656	51850	XXX	29636							10
	OTHER:											
7	BREEDING											7
8												8
9	TOTAL NON-BREEDING											9
10	TOTAL											10
	FORM TOTAL											

OBJECTIVE 11

Match types of expenses to the correct guidelines for estimating their current inventory values.

- **Equipment and facilities that are an integral part of production**—Value at cost less depreciation

  EXAMPLES: Fences, pumps, grain bins, finishing floors

- **Buildings**—Value at insured value plus 20 percent

  EXAMPLE: The real estate investment and depreciation record is one of the most important records to keep. This information must be kept until the real estate is sold or transferred to someone else. Sometimes several years will pass between the purchase and sale of real estate. It is important to record information regarding improvements, buildings, and easements that may affect the basis value of the land.

- **Soil and water conservation expenses**—Treat as current deductible expenses up to 25 percent of the gross farming in any year

  EXAMPLES: Leveling, grading, terracing, dams, drainage channels, ponds

  NOTE: In order to keep a record of them, these improvements need to be listed even though they are not depreciated. If the farm is sold in less than ten years, all or part of the deduction of these expenses will be recaptured.

- **Land-clearing expenses**—Treat as current deductible expenses but limited to the lesser of $5,000 or 25 percent of the taxable income derived from farming during the taxable year

  NOTE: These improvements need to be listed even though they are not depreciated. Land-clearing expenses are subject to recapture if the farm is sold within ten years.

- **Land improvements**—Value at cost less depreciation

  EXAMPLES: Tilling of land, installation of a water system, pipe used in a pond

- **Land**—Value at conservative market value for the whole farm, less buildings and improvements

NOTE: Many farmers and lenders prefer to update the current land value every five years for the purpose of making adjustments on the net worth statement. Some farmers prefer to use the book value or original cost of land less adjustments for buildings and improvements.

EXAMPLE: The following information and the sample completed real estate investment record on Form 3.5 (located after the next page) outline the procedure for completing an inventory of real estate and buildings.

— Enter date land was acquired

— Enter legal description of land

REMEMBER: Sometimes other description may more readily identify location of farmland.

— Determine original basis allocated to land eg. cash paid, carry-over basis, settlement fees, debt assumed

— Determine reductions in basis eg. portion of basis allocated to buildings and improvements, easements, right-of-ways, and land damages

— Enter date acquired, description, and total cost basis of buildings and improvements

REMEMBER: Buildings and improvements should be those attached to land entered on land description.

— Estimate current inventory values

REMEMBER: Current land values should remain consistent over a specified time period.

FORM 3.5 **REAL ESTATE INVESTMENT AND DEPRECIATION RECORD**

Tract No. _____ Date Acquired 1/77

Legal Description SW 1/4 Sec 20 T6N R19W IM

Other Description Farris home place - 160 ac

LINE	DATE ACQUIRED		ESTIMATED CURRENT CASH VALUE				INVEST-MENT CREDIT	COST INFORMATION		
			START 19XX	START 19__	START 19__	START 19__		TOTAL COST BASIS	ADJUST-MENTS	BALANCE FOR DEPREC.
1	1/77	Cattle Shed	840					2,800		
2	1/77	Hay Barn	840					2,800		
3	8/82	Pond	900					900		
4	8/88	3 miles Barbed-Wire Fence	5,400					5,400		
5										
6										
7										
8										
9										
10		TOTAL BUILDING AND IMPROVEMENT	7,980							
11		LAND	90,000							
12		TOTAL (line 12 + line 13)	97,980							
	1	2	3	4	5	6	7	8	9	10

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FORM 3.6 **REAL ESTATE INVESTMENT AND DEPRECIATION RECORD (CON'D)**

Original Basis Allocated to Land:

Purchase price, carry over basis, other	(A)	52,500
Settlement fees	(B)	5,000
Debt assumed	(C)	22,500
Other	(D)	-0-
Total Original Basis (Add Lines A thru D)	(E)	80,000
less porbon of basis allocated to buildings and improvements	(F)	18,800
less reductions in basis	(G)	—
Original Basis Allocated to Land (Line E minus F minus G)	(H)	61,200

LINE	LIFE	METHOD	ANNUAL DEPREC. % or $	DEPREC. TAKEN IN PRIOR YEARS	START 19___	START 19___		START 19___		START 19___	
					REMAINING BK. VAL. AT START OF YEAR	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
	11	12	13	14	15	16	17	18	19	20	21

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OBJECTIVE 12

State guidelines for estimating current inventory value of feed, crops, and supplies.

- Use current market price of raised crops less cost for marketing
- Use cost of purchased items delivered to the farm

  EXAMPLES: Fuel, feed, crop and livestock supplies, hay

- Use production costs of growing crops

  EXAMPLE: Production cost for wheat on January 1 might include tillage costs (plowing, disking), seed wheat and drilling wheat, fertilizer, fertilizer application, and cash farm rent.

NOTE: To complete a beginning inventory of all owned assets, it is important to include an inventory of feed, stored and growing crops, and supplies. A class member must develop a systematic approach to inventory these items as some may be easily overlooked. Common problem areas include estimating amount of stored crops (wheat in bin, hay in barn), estimating production costs for growing crops, and estimating amount of stored supplies (seed, fuel). (See Form 3.9 on following page.)

OBJECTIVE 13

State guidelines for crop inventory under government loan.

NOTE: Always check current guidelines for recording crops in government programs.

- Crops produced during the year that have been entered as a receipt should not be inventoried as an asset
- Crops produced during the year that have not been entered as a receipt should be inventoried at government loan value

OBJECTIVE 14

Select from a list guidelines for determining cash balances.

- Reconcile checking account bank statement with checkbook
- Determine amount of cash on hand

FORM 3.9 **INVENTORY OF FEED, STORED & GROWING CROPS AND CROP & LIVESTOCK SUPPLIES**

LINE	UNITS	START 19XX			START 19___			START 19___			START 19___			LINE
		QUANT.	PRICE PER UNIT	TOTAL VALUE	QUANT.	PRICE PER UNIT	TOTAL VALUE	QUANT.	PRICE PER UNIT	TOTAL VALUE	QUANT.	PRICE PER UNIT	TOTAL VALUE	
	PURCHASED FEEDS													
1	Purchased Feeds	6 tons	$200/T	1,200										1
2	Supplement & Minerals													2
3														3
4														4
5	TOTAL PURCHASED FEEDS			1200										5
	STORED CROPS													
6	Wheat	1,200 bu.	3.55/bu.	4,260										6
7	Grain Sorghum													7
8	Soybeans	2,500 bu.	5.50/bu.	13,750										8
9	Cotton													9
10														10
11	Silage													11
12														12
13	Hay													13
14														14
15	Straw													15
16	TOTAL STORED CROPS	3,700 bu.		18,010										16
	GROWING CROPS ($invested)													
17	Wheat	200 ac	50/ac	10,000										17
18														18
19	TOTAL GROWING CROPS	200 ac		10,000										19
	SUPPLIES													
20	Seeds													20
21														21
22	Fertilizer Stored													22
23														23
24	Chemicals													24
25														25
26	Twine, Etc.													26
27	Fuel	230 gal	1.10/gal	253										27
28														28
29	Oil	13 gal.	4.00/gal	52.00										29
30	Grease													30
31	Vet Supplies			30										31
32	Small Hand Tools			500										32
33	Bedding													33
34	Other Supplies													34
35	TOTAL SUPPLIES			835.00										35
	OTHER													
36														36
37														37
38	TOTAL OTHER			-0-										38
39	FORM TOTAL			30,[illegible]										39

OBJECTIVE 15

Distinguish between inventory of receivables and inventory of payables.

NOTE: One the most difficult tasks of starting a record-book system is obtaining accurate and complete beginning balances for account receivable and payable. Beginning balances are extremely important so that accurate credit records may be kept and a complete and accurate beginning net worth statement may be computed.

Receivables

- Money owed to farm business

  EXAMPLE: Farm products sold but payment not yet received

- Loans to others
- Savings accounts
- Stock in cooperatives

  NOTE: Accounts receivable forms are an easy way to keep an accurate record of dollars other people owe you. There are two types of accounts receivable: open accounts receivable such as sale of co-op stock, savings account, life insurance; notes and mortgages receivable such as installment sale of land.

  EXAMPLES:

  FORM 4.1

FORM 4.1 PAGE

BORROWER Stan Bixler
PURPOSE Alfalfa Hay
TERMS Pay within 60 days

DATE	ADDED TO ACCOUNT	PAYMENTS TOTAL	PAYMENTS INTEREST	PAYMENTS PRINCIPAL	UNPAID PRINCIPAL BALANCE
1/1	Beginning balance				560

OPEN ACCOUNTS RECEIVABLE

BORROWER Coop Stock
PURPOSE
TERMS 10 shares $50/share

DATE	ADDED TO ACCOUNT	PAYMENTS TOTAL	PAYMENTS INTEREST	PAYMENTS PRINCIPAL	UNPAID PRINCIPAL BALANCE
1/1					500

On March 1, 1987, Pattie Jonson, purchased 25 acres for $20,000. Pattie paid a 25 percent down payment and agreed to pay the remaining balance in five annual payments of $3,000 plus 10 percent interest on the unpaid balance due each March 1.

FORM 4.2

FORM 4.2 PAGE — NOTES AND MORTGAGES RECEIVABLE

BORROWER Pattie Jonson
PURPOSE Real Estate
TERMS 25% Down 5 annual Installments, 10% int.

DATE	ADDED TO ACCOUNT	REPAYMENT SCHEDULE				PAYMENTS RECEIVED				UNPAID PRINCIPAL BALANCE
		DATE	PAYMENT	INTEREST	PRINCIPAL	DATE	TOTAL	INTEREST	PRINCIPAL	
1/89		—	—	—	—	—	—	—	—	15,000
		3/90	4500	1500	3000					
		3/91	4200	1200	3000					
		3/92	3900	900	3000					
		3/93	3600	600	3000					
		3/94	3300	300	3000					

NOTE: If the cash method of accounting is used, record the additions in the Added to Account column and Unpaid Principal Balance column. Other entries are not required until payment is made. Record payments on form and in the appropriate columns in the Farm Receipts section of the record book.

Payables

- Money owed by farm business

EXAMPLES: Feed bills, unpaid rent or taxes

NOTE: Record payment schedule when money is borrowed. Record on FORM 4.3 and in appropriate columns in farm receipt section when loan payments are made. Record information on FORM 4.3 and transfer to appropriate columns in Farm Expenditures section.

FORM 4.3

FORM 4.3 PAGE — OPEN ACCOUNTS PAYABLE

CREDITOR Dinnis's Farm Supply
PURPOSE
TERMS 30 Day Same As Cash

DATE	ADDED TO ACCOUNT	PAYMENTS			UNPAID PRINCIPAL BALANCE
		TOTAL	INTEREST	PRINCIPAL	
1/1					-0-
1/10	52.12				52.12
1/6	8.09				60.21
3/7	14.72				74.93

CREDITOR
PURPOSE
TERMS

DATE	A	PAYMENTS		UNPAID PRINCIPAL BALANCE
		INTEREST	PRINCIPAL	

- Money borrowed and accrued interest

NOTE: Borrowing and advances on credit lines should be added to unpaid principal's balances and transferred to the appropriate column in the Farm Receipts section. Loan payments should be recorded in appropriate columns and transferred to the Farm Expenditures section.

FORM 4.4

FORM 4.4 PAGE

CREDITOR United PCA
PURPOSE Operating Note
TERMS Renewable Annually, June 1

DATE	BORROWINGS	PAYMENTS			UNPAID PRINCIPAL BALANCE
		TOTAL	INTEREST	PRINCIPAL	
1/1	Beginning Bal				92,890
1/1	Accrued Int.		8,730		92890

CREDIT LINES AND SHORT TERM NOTES

CREDIT
PURPO
TERM

DATE	PAYMENTS			UNPAID PRINCIPAL BALANCE
	TOTAL	INTEREST	PRINCIPAL	

NOTE: Record payment schedule. When money is borrowed, record on farm and in appropriate columns in Farm Receipt section. When loan payments are made, record information on Form 4.5 and transfer to appropriate columns in Farm Expenditures section. (See Form 4.5 on the following page.)

FORM 4.5 PAGE

INTERMEDIATE AND LONG TERM MULTIPAYMENT NOTE AND MORTGAGE RECORD

CREDITOR Prudential Life Insurance Co.

PURPOSE 160 acres

TERMS Constant Principal - $3600.00, 9% int., Balloon Payment 6/95 of $74,000.00

REPAYMENT SCHEDULE				REPAYMENT RECORD				
DATE	TOTAL	INTEREST	PRINCIPAL	DATE	TOTAL	INTEREST	PRINCIPAL	UNPAID PRINCIPAL BALANCE
6/88	12,582.00	9,252.00	3,600.00	6/30/88	12,582.00	9,252.00	3,600.00	99,200.00
6/89	12,528.00	8,928.00	3,600.00					95,600.00
6/90	12,204.00	8,604.00	3,600.00					92,000.00
6/91	11,880.00	8,280.00	3,600.00					88,400.00
6/92	11,556.00	7,956.00	3,600.00					84,800.00
6/93	11,232.00	7,632.00	3,600.00					81,200.00
6/94	10,908.00	7,308.00	3,600.00					77,600.00
6/95	10,584.00	6,984.00	3,600.00					74,000.00

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ASSIGNMENT SHEET 1	INVENTORIES	II

NAME _____ SCORE ____

OBJECTIVE 16

Complete a sample beginning inventory.

INTRODUCTION

In this assignment sheet, you will use those forms necessary to prepare a complete beginning inventory of a farm business.

DIRECTIONS

Prepare a beginning inventory based upon the information below labeled Inventory January 1, 19XX. Use the following forms (obtained from your instructor) to complete this assignment sheet.

- Form 3.1—Machinery and Equipment
- Form 3.3—Livestock for Breeding
- Form 3.5 and 3.6—Real Estate Investment and Depreciation Record
- Form 3.7—Purchased for Resale
- Form 3.8—Inventory of Livestock
- Form 3.9—Inventory of Feed, Stored and Growing Crops, and Crop and Livestock Supplies
- Form 4.1—Open Accounts Receivable
- Form 4.3—Open Accounts Payable
- Form 4.4—Credit Lines and Short-Term Notes
- Form 4.5—Intermediate and Long-Term Multi-Payment Note and Mortgage Record

INVENTORY

January 1, 19XX

Real Estate	Current Value
160 acres total—100 crop, 60 pasture	
Acquired 1965, purchase price $60,000	$98,000.00
Built home in 1975	30,000.00
Built 2 grain bins in 1970, 1,000 bu. capacity	15,000.00
1970 shed	800.00
Household	10,000.00
1986 Buick	7,000.00

Equipment	Current Value
Case tractor, purchased 5-1979,	$12,500.00
L2 combine, purchased 4-1980,	22,500.00
John Deere plow 4600, purchased 1-1983,	6,750.00
John Deere 230-24' disc, purchased 3-1980,	5,000.00
New Holland 425 twine baler, purchased 2-1982,	10,000.00
Vermeer round baler 504C, purchased 7-1987,	4,500.00
International 5000 swather, purchased 4-1987,	4,900.00
International 510 20X8 drill, purchased 5-1986,	2,250.00
Chevy 1/2 ton 4x4 truck, purchased 3-1984,	6,600.00
Morris 435, 35' chisel, purchased 8-1988,	5,000.00
Breeding cows purchased, 20 head, 900 lb. each, $40/cwt	7,200.00
Breeding cows raised, 30 head, 1,000 lb. each, $40/cwt	12,000.00
Purchased stockers, 200 head, 400 lb. each, $85/cwt	68,000.00
Raised calves, 30 head, 125 lb. each, $130/hd	3,900.00
Purchased feeds, 6 ton, price $200/T	1,200.00
50 Round bales, wheat hay $12/bale	600.00
1,000 square bales, alfalfa, $2/bale	2,000.00
400 acres wheat, cost of $40/acre	16,000.00
230 gallons diesel, .80/gallon	184.00
Vet supplies	100.00
Co-op stock, 5 shares, $100/share	500.00
Term Life Insurance Co., policy no. 1010101	100,000.00
Charge account Local Coop	500.00
Charge account, Ed's Vet Clinic	600.00
Snake National Bank, Operating Note, 6 mo., 11.5% int.	15,000.00
Snake National Bank, Cattle loan (stockers) 6 mo. credit line	50,000.00
Equipment Unlimited: Combine loan, 5 year., 12.5% int.	
Repayment schedule: $3,125 int., $3,896.35 prin.,	21,103.65 bal.
Third Mortgage Federal, real estate loan, 30 years	
Repayment schedule: $20,883.91 int., $1,221.79 prin.,	200,000.00 bal.
Snake National Bank. Car loan, 1986 Buick, 12% int.	7,000.00 bal.

ASSIGNMENT SHEET 2	INVENTORIES	II

OBJECTIVE 17

Complete your actual beginning inventories.

INTRODUCTION

Now that you have completed the sample beginning inventories, you should be ready to tackle your farm business' inventories.

DIRECTIONS

Use the following forms that are in your *Oklahoma Young Farmer's Record Book* to record your farm business' current inventories.

- Form 3.1—Machinery and Equipment
- Form 3.3—Livestock for Breeding
- Form 3.5 and 3.6—Real Estate Investment and Depreciation Record
- Form 3.7—Purchased for Resale
- Form 3.8—Inventory of Livestock
- Form 3.9—Inventory of Feed, Stored and Growing Crops, and Crop and Livestock Supplies
- Form 4.1—Open Accounts Receivable
- Form 4.3—Open Accounts Payable
- Form 4.4—Credit Lines and Short-Term Notes
- Form 4.5—Intermediate and Long-Term Multi-Payment Note and Mortgage Record

ASSIGNMENT SHEET 1

Answers should include the information provided on the forms located on the pages that follow.

ASSIGNMENT SHEET 2

Answers should include information specific to individual farm business operations but should be placed on the following forms:

- Form 3.1—Machinery and Equipment
- Form 3.3—Livestock for Breeding
- Form 3.5 and 3.6—Real Estate Investment and Depreciation Record
- Form 3.7—Purchased for Resale
- Form 3.8—Inventory of Livestock
- Form 3.9—Inventory of Feed, Stored and Growing Crops, and Crop and Livestock Supplies
- Form 4.1—Open Accounts Receivable
- Form 4.3—Open Accounts Payable
- Form 4.4—Credit Lines and Short-Term Notes
- Form 4.5—Intermediate and Long-Term Multi-Payment Note and Mortgage Record

FORM 3.1 **PAGE** **DEPRECIATION SCHEDULE:** _____ **MACHINERY AND EQUIPMENT**

LINE	DATE ACQUIRED	ITEM DESCRIPTION KIND OF MACHINE, MAKE, MODEL, SIZE	ESTIMATED CURRENT CASH VALUE START 19XX	START 19__	START 19__	START 19__	NEW OR USED	COST INFORMATION REM'NG BOOK VALUE OF TRADE-IN	CASH DIFF PAID	TOTAL COST BASIS	INVEST CREDIT	ADJUST-MENTS	LINE
1	1979	Case Tractor	12,500.-										1
2	1980	L2 Combine	22,500.-										2
3	1983	John Deere Plow 4600	6,750.-										3
4	1980	John Deere 230-24' Disc	6,000.-										4
5	1982	New Holland 425 Twine Baler	10,000.-										5
6	1987	Vermeer Round Baler 504C	4,500.-										6
7	1987	International 5000 Swather	4,900.-										7
8	1984	Chevy 1/2 T 4x4 Truck	6,600.-										8
9	1988	Morris 435 35' Chisel	5,000.-										9
10													10
11													11
12													12
13													13
14													14
15													15
16													16
17													17
18													18
19													19
20													20
21													21
22													22
23													23
24													24
25		TOTALS FOR THIS PAGE	80,000.-										25
	1	2	3	4	5	6	7	8	9	10	11	12	

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FORM 3.3 **PAGE** **DEPRECIATION SCHEDULE** _____ **LIVESTOCK FOR BREEDING**

LINE	Date Acquired	Item Description	Head in Lot When Acq.	ESTIMATED CURRENT CASH VALUE Per Lot: Start 19XX	Start 19	Start 19	Start 19	Investment Credit	New or Used	PER HEAD DATA: Cost Basis	Adjustments	Balance for Deprec	Life	Method	Annual Deprec % or $	START Per Head: Deprec in Prior Years	Remaining Book Value	Head On Hand	LINE
1	1986	Herefords	20	7,200															1
2																			2
3																			3
4																			4
5																			5
6																			6
7																			7
8																			8
9																			9
10																			10
11																			11
12																			12
13																			13
14																			14
15																			15
16																			16
17																			17
18																			18
19																			19
20																			20
21																			21
22																			22
23																			23
24																			24
25		TOTALS FOR THIS PAGE		7,200															25
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	

FORM 3.5 **REAL ESTATE INVESTMENT AND DEPRECIATION RECORD**

Tract No. 42 Date Acquired 1965

Legal Description SW 1/4 Sec. 20 T6N R19W IM

Other Description Homeplace - 160 acres
100 acres - Crop
60 acres - pasture

1975 Home built current value $30,000

LINE	DATE ACQUIRED		ESTIMATED CURRENT CASH VALUE				INVEST-MENT CREDIT	COST INFORMATION		
			START 19 75	START 19___	START 19___	START 19___		TOTAL COST BASIS	ADJUST-MENTS	BALANCE FOR DEPREC.
1	1970	2 Grain bins (1,000 bu. cap.)	1,500.-							
2	1970	Shed	800.-							
3										
4										
5										
6										
7										
8										
9										
10		TOTAL BUILDING AND IMPROVEMENT	2,300.-							
11		LAND	98,000.-							
12		TOTAL (line 12 + line 13)	100,300.-							
	1	2	3	4	5	6	7	8	9	10

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FORM 3.6 **REAL ESTATE INVESTMENT AND DEPRECIATION RECORD (CON'D)**

Original Basis Allocated to Land:

Purchase price, carry over basis, other	(A)	60,000.-
Settlement fees	(B)	
Debt assumed	(C)	
Other	(D)	
Total Original Basis (Add Lines A thru D)	(E)	
less portion of basis allocated to buildings and improvements	(F)	
less reductions in basis	(G)	
Original Basis Allocated to Land (Line E minus F minus G)	(H)	60,000.00

LINE	LIFE	METHOD	ANNUAL DEPREC. % or $	DEPREC. TAKEN IN PRIOR YEARS	START 19___	START 19___		START 19___		START 19___	
					REMAINING BK. VAL. AT START OF YEAR	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE	DEPREC. THIS YEAR	REMAINING BOOK VALUE
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
	11	12	13	14	15	16	17	18	19	20	21

FORM 3.7 **PURCHASED FOR RESALE**

KIND: Stockers

	PURCHASED (from FORM 2.5 col. 48)			SALES (from FORM 1.5 col. 17)			
	Date	Description	Amount	Date	Description	Amount	
1	12-87	200 hd., 400 lbs., $85	68,000				1
2							2
3							3
4							4
5							5
6							6
7							7
8							8
9							9

KIND:

	PURCHASED (from FORM 2.5 col. 48)			SALES (from FORM 1.5 col. 17)			
	Date	Description	Amount	Date	Description	Amount	
1							1
2							2
3							3
4							4
5							5
6							6
7							7
8							8
9							9

FORM 3.8

INVENTORY OF LIVESTOCK

LINE		START 19 58				START 19___				START 19___				START 19___				LINE
		No. Head	TOTAL WT.	Price Per Unit	TOTAL VALUE	No. Head	TOTAL WT.	Price Per Unit	TOTAL VALUE	No. Head	TOTAL WT.	Price Per Unit	TOTAL VALUE	No. Head	TOTAL WT.	Price Per Unit	TOTAL VALUE	
	BEEF																	
	BREEDING BEEF		cwt.				cwt.				cwt.				cwt.			
1	Purchased	20	900	$40	7,200													
2	Raised	20	1,000	$40	12,000													1
3																		2
4	TOTAL BREEDING	40	1,900		19,200													3
	NON-BREEDING BEEF																	4
5	Purchased	200	400	$85	68,000													
6	Raised	30	125	$130	3,900													5
7																		6
8																		7
9	TOTAL NON-BREEDING	230	525		91,900													8
10	TOTAL BEEF	270	19,725		91,100													9
	OTHER:																	10
	BREEDING																	
1	Purchased																	
2	Raised																	1
3																		2
4	TOTAL BREEDING																	3
	NON-BREEDING																	4
5	Purchased																	
6	Raised																	5
7																		6
8																		7
9	TOTAL NON-BREEDING																	8
10	TOTAL																	9
	OTHER:																	10
	BREEDING																	
1	Purchased																	
2	Raised																	1
3																		2
4	TOTAL BREEDING																	3
	NON-BREEDING																	4
5	Purchased																	
6	Raised																	5
7																		6
8																		7
9	TOTAL NON-BREEDING																	8
10	TOTAL																	9
	FORM TOTAL																	10

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FORM 3.9

INVENTORY OF FEED, STORED & GROWING CROPS AND CROP & LIVESTOCK SUPPLIES

LINE		UNITS	START 19 85			START 19___			START 19___			START 19___			LINE
			QUANT.	PRICE PER UNIT	TOTAL VALUE	QUANT.	PRICE PER UNIT	TOTAL VALUE	QUANT.	PRICE PER UNIT	TOTAL VALUE	QUANT.	PRICE PER UNIT	TOTAL VALUE	
	PURCHASED FEEDS														
1	Purchased Feeds		6 ton	$200	$1,200.-										1
2	Supplement & Minerals														2
3															3
4															4
5	**TOTAL PURCHASED FEEDS**														5
	STORED CROPS														
6	Wheat														6
7	Grain Sorghum														7
8	Soybeans														8
9	Cotton														9
10	Alfalfa - sq. bales		1,000	$2	$2,000.-										10
11	Silage														11
12															12
13	Hay - round bales		50	$12	$600.-										13
14															14
15	Straw														15
16	**TOTAL STORED CROPS**														16
	GROWING CROPS (Sinvested)														
17	Wheat		400 ac.	$40	$16,000										17
18															18
19	**TOTAL GROWING CROPS**														19
	SUPPLIES														
20	Seeds														20
21															21
22	Fertilizer Stored														22
23															23
24	Chemicals														24
25															25
26	Twine, Etc.														26
27	Fuel Diesel		230 gal.	.80	184.-										27
28															28
29	Oil														29
30	Grease														30
31	Vet Supplies				100.-										31
32															32
33	Bedding														33
34	Other Supplies														34
35	**TOTAL SUPPLIES**														35
	OTHER														
36															36
37															37
38	**TOTAL OTHER**														38
39	**FORM TOTAL**														39

FORM 4.1 PAGE

BORROWER Term Life Insurance
PURPOSE Policy No. 101010-1
TERMS $100,000 face value

DATE	ADDED TO ACCOUNT	PAYMENTS			UNPAID PRINCIPAL BALANCE
		TOTAL	INTEREST	PRINCIPAL	
	1	2	3	4	5

OPEN ACCOUNTS RECEIVABLE

BORROWER Coop Stock
PURPOSE 5 Shares
TERMS $100/share

DATE	ADDED TO ACCOUNT	PAYMENTS			UNPAID PRINCIPAL BALANCE
		TOTAL	INTEREST	PRINCIPAL	
					$500.-
	1	2	3	4	5

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FORM 4.3 PAGE

OPEN ACCOUNTS PAYABLE

CREDITOR Ed's Vet Clinic
PURPOSE
TERMS

DATE	ADDED TO ACCOUNT	PAYMENTS			UNPAID PRINCIPAL BALANCE
		TOTAL	INTEREST	PRINCIPAL	
1/1					$600.-
	1	2	3	4	5

CREDITOR
PURPOSE
TERMS

DATE	ADDED TO ACCOUNT	PAYMENTS			UNPAID PRINCIPAL BALANCE
		TOTAL	INTEREST	PRINCIPAL	
	1	2	3	4	5

FORM 4.4 PAGE

CREDIT LINES AND SHORT TERM NOTES

CREDITOR Snake National Bank
PURPOSE Operating Note
TERMS 60 mo., 11.5%

DATE	BORROWINGS	PAYMENTS			UNPAID PRINCIPAL BALANCE
		TOTAL	INTEREST	PRINCIPAL	
1/1					15,000.-
	1	2	3	4	5

CREDITOR Snake National Bank
PURPOSE Cattle Loan - Credit Line
TERMS 6 mo.

DATE	BORROWINGS	PAYMENTS			UNPAID PRINCIPAL BALANCE
		TOTAL	INTEREST	PRINCIPAL	
1/1					50,000.-
	1	2	3	4	5

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FORM 4.5 PAGE

INTERMEDIATE AND LONG TERM MULTIPAYMENT NOTE AND MORTGAGE RECORD

CREDITOR Snake National Bank

PURPOSE Car loan - 1986 Buick

TERMS 12%

REPAYMENT SCHEDULE				REPAYMENT RECORD				
DATE	TOTAL	INTEREST	PRINCIPAL	DATE	TOTAL	INTEREST	PRINCIPAL	UNPAID PRINCIPAL BALANCE
1/1	-							7,000.-
	1	2	3		4	5	6	7

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FORM 4.5 PAGE

INTERMEDIATE AND LONG TERM MULTIPAYMENT NOTE AND MORTGAGE RECORD

CREDITOR Equipment Unlimited

PURPOSE Combine loan

TERMS 5 yr., 12.5%

REPAYMENT SCHEDULE				REPAYMENT RECORD				
DATE	TOTAL	INTEREST	PRINCIPAL	DATE	TOTAL	INTEREST	PRINCIPAL	UNPAID PRINCIPAL BALANCE
V1	7021.35	3,125.-	3896.35					21,103.65
	1	2	3		4	5	6	7

FORM 4.5 PAGE

INTERMEDIATE AND LONG TERM MULTIPAYMENT NOTE AND MORTGAGE RECORD

CREDITOR Third Mortgage Federal

PURPOSE Real estate loan

TERMS 30 yrs.

REPAYMENT SCHEDULE				REPAYMENT RECORD				
DATE	TOTAL	INTEREST	PRINCIPAL	DATE	TOTAL	INTEREST	PRINCIPAL	UNPAID PRINCIPAL BALANCE
1/1	22,105.70	20,883.91	1,221.79					$ 200,000.-
	1	2	3		4	5	6	7

WRITTEN TEST	INVENTORIES	II

NAME _____ SCORE ____

OBJECTIVE 1

Match to their correct definitions terms associated with inventory and net worth statements. Write the correct numbers in the blanks.

__1. Assets used in or claimed by the farm business	a. Asset
__2. Livestock, land, and other personal property used to secure a loan	b. Solvency
__3. Sheet that shows financial condition at a definite point in time; lists all assets, values of assets, and liabilities of farm	c. Debts
__4. Item or resource controlled by the farm business	d. Net worth statement
__5. Financial claim against the farm business	e. Liability
__6. Farm business's capacity to generate sufficient cash to meet its financial obligations as they fall due	f. Worth
__7. Farm business's ability to meet long-run claims against the business	g. Adjusted tax basis
__8. Value of assets not claimed by individuals or firms outside the farm business or the owner's claim on the assets	h. Liquidity
__9. Original cost of an asset plus the value of improvements or alterations less the cost of depreciation, losses, or depletion	i. Collateral
	j. Tax deduction
	k. Inventory
	l. Net worth

OBJECTIVE 2 **State four reasons for keeping inventory records.**

1. _____

2. _____

3. _____

4. _____

OBJECTIVE 3 **Select from the following list factors that determine inventory date.** Write an "X" in the blank before each correct answer.

1. Period in which there is a large quantity of assets
2. Significance in farm operation
3. Convenience to operator
4. Busiest time of year

OBJECTIVE 4 **List seven items to be included in an inventory.**

1. _____
2. _____
3. _____
4. _____
5. _____
6. _____
7. _____

OBJECTIVE 5 **List the parts of an inventory.**

1. _____
2. _____

OBJECTIVE 6

Select from the following list guidelines for making a physical count. Write an "X" in the blank before each correct answer.

1. Measure quantities of items in commonly used units
2. Use current values
3. Group like items
4. Take inventory on a single day or as of a single date
5. Value at cost less depreciation

OBJECTIVE 7

Match to their correct descriptions methods of valuation for farm inventories. Write the correct numbers in the blanks.

__1. Price at which an item was purchased	a. Farm production costs
__2. Value of an item at the marketplace, less transportation and marketing charges	b. Net market price
__3. Lower of production costs; original purchase price compared to current market price	c. Added cost to market cost
__4. Actual amount invested in cost of producing a farm asset	d. Market cost
__5. Assets that provide services to the farm business for a period longer than one year and become less valuable in process	e. Value of production for crops
__6. Asset values that change in accordance with amount resource is displaced or removed	f. Cost minus depreciation
	g. Cost or market value
	h. Cost minus depletion

OBJECTIVE 8

Distinguish between current value and book value methods of valuation. Write a "C" for current value and a "B" for book value.

__1. Values assets on an adjusted tax basis

__2. Used to obtain or establish credit

__3. Used for tax purposes and for tax and estate planning

__4. Values all assets at a fair net market value

OBJECTIVE 9

Select from the following list guidelines for estimating current inventory values of machinery and equipment. Write an "X" in the blank before each correct answer.

1. Value at a current price less cost of marketing
2. Value at cost less depreciation
3. Value at conservative, current, "as-is" market value
4. Treat as a current deductible expense

OBJECTIVE 10

State three guidelines for estimating current inventory values of livestock.

_____

_____

_____

OBJECTIVE 11

Match the types of expenses on the right to the correct guidelines for estimating their current inventory values. Write the correct numbers in the blanks.

__ 1. Value at cost less depreciation	a. Family car
__ 2. Value at insured value plus 20 percent	b. Land improvements
__ 3. Treat as current deductible expenses up to 25 percent of the gross farming in any year	c. Breeding livestock
__ 4. Treat as current deductible expenses but limited to the lesser of $5,000 or 25 percent of the taxable income derived from farming during the taxable year	d. Equipment and facilities that are an integral part of production
__ 5. Value at cost less depreciation	e. Land-clearing expenses
__ 6. Value at conservative market value for the whole farm, less buildings and improvements	f. Soil and water conservation expenses
	g. Buildings
	h. Land

OBJECTIVE 12

State two guidelines for estimating current inventory values of feed, crops, and supplies.

_____

_____

_____

_____

_____

OBJECTIVE 13

State two guidelines for crop inventory under government loan.

_____

_____

_____

_____

_____

OBJECTIVE 14

Select from the following list guidelines for determining cash balances. Write an "X" in the blank before each correct answer.

1. Use current market price
2. Determine amount of cash on hand
3. Reconcile checking account bank statement with checkbook

OBJECTIVE 15

Distinguish between inventory of receivables and inventory of payables. Write an "R" in the blanks before receivables and a "P" before payables.

1. Money owed to farm business
2. Savings accounts
3. Money owed by farm business
4. Stock in cooperatives
5. Money borrowed
6. Accrued interest
7. Loans to others

NOTICE

The following assignment sheets are not a part of the written test. If these activities have not been completed, check with your instructor.

OBJECTIVE 16 **Complete a sample beginning inventory.** Score _____

OBJECTIVE 17 **Complete your actual beginning inventory.** Score _____

OBJECTIVE 1

1. k
2. i
3. d
4. a
5. e
6. h
7. b
8. l
9. g

OBJECTIVE 2

Answers should include any four of the following

- To obtain a true picture of financial situation
- To reflect noncash income and expenses
- To provide a management tool
- To place values on farm assets
- To complete estate planning and settlement
- To obtain credit

OBJECTIVE 3

2, 3

OBJECTIVE 4

Answers should include seven of the following

- All unsold items at end of tax year
- All livestock and poultry held primarily for sale
- Livestock held for draft, breeding, dairy, or sporting purposes—whether raised or purchased
- All harvested and purchased farm products held for sale or for feed or seed
- Growing or standing crops
- Machinery and equipment
- Buildings
- Land

- Cash balances
- Accounts receivable
- Accounts payable
- Prepaid expense items

OBJECTIVE 5

- Physical count
- Valuation

OBJECTIVE 6

1, 3, 4

OBJECTIVE 7

1. d	4. a
2. b	5. h
3. g	6. f

OBJECTIVE 8

1. B
2. C
3. B
4. C

OBJECTIVE 9

2, 3

OBJECTIVE 10

Answers should include three of the following

- Value purchased breeding animals at cost less depreciation
- Use a long-term average value for raised breeding animals
- Value market animals at current price less cost of marketing
- Value livestock purchased for resale at purchase cost

OBJECTIVE 11

1. d
2. g
3. f
4. e
5. b
6. h

OBJECTIVE 12

Answer should include any two of the following

- Use current market price of raised crops less cost for marketing raised crops.
- Use cost of purchased items delivered to the farm.
- Use production costs for growing crops.

OBJECTIVE 13

Answer should include the following

- Crops produced during the year that have been entered as a receipt should not be inventoried as an asset
- Crops produced during the year that have not been entered as a receipt should be inventoried at government loan value

OBJECTIVE 14

2, 3

OBJECTIVE 15

1. R
2. R
3. P
4. R
5. P
6. P
7. R

OBJECTIVE 16

Refer to answers to Assignment Sheet 1.

OBJECTIVE 17

Refer to answers to Assignment Sheet 2.

UNIT OBJECTIVE	JOURNAL ENTRY	III

INTRODUCTION

After completing this unit, the class member should be able to determine the record information needed for the farm business and be able to complete posting of receipts and expenditures in a record book. The class member will demonstrate these competencies by completing assignment sheets and written test with a minimum of 85 percent accuracy.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to

1. Match the terms associated with journal entry to their correct definitions.
2. List the reasons for keeping farm records.
3. Explain the uses of the type of records most common to farm business management.
4. Define the single-entry accounting procedure.
5. Explain the cash method and accrual method of accounting.
6. Explain the difference between calender year and fiscal year accounting periods.
7. Select the supplies needed for record keeping.
8. Explain briefly the two record systems.
9. List the steps in completing entries.
10. List the steps used in making an entry.
11. Select suggestions for making entries in a farm record book.
12. List types of farm income.
13. Select types of family living and non-farm business income.
14. List types of farm expenses.
15. List types of family living and non-farm expenses.
16. Explain briefly the benefits of a cash flow summary.
17. List the steps in completing a cash flow summary.

18. Select the reasons for keeping non-farm and family-living records.

19. Complete sample entries of deposits and checks into record book. (Assignment Sheet 1)

20. Complete your entries of deposits and checks into record book. (Assignment Sheet 2)

SUGGESTED ACTIVITIES	JOURNAL ENTRY	III

PREPARATION

Obtain material to supplement unit.

- *Oklahoma Young Farmer Record Book*
- Read and prepare unit.
- Introduce unit.
- Show Transparency Master 1.

DELIVERY

Discuss unit and specific objectives.

Objective 1

- Discuss the terms associated with journal entry.
- You may wish to hold back examples of each term since they will be discussed later in the unit.

Objective 2

- Stress the note in this objective when discussing the reasons for keeping farm records.
- Discuss the current penalties for failing to report income accurately.
- Discuss the examples for each reason listed.

Objective 3

- Discuss the two types of records.
- Explain carefully the difference between financial records and physical records.
- Show class members examples of a net worth statement, an income statement, and projected cash flow.
- State some examples of physical records besides labor, feed, and crop production.

Objective 4

- Explain the two accounting procedures.
- Discuss how each procedure applies to the farm business.

Objective 5

- Explain carefully the cash method and accrual method.
- Be sure to emphasize the notes under each method.
- Show examples of each method.

Objective 6

- Discuss the two accounting periods used in managing finances.
- Stress to the class members that once they have selected an accounting period it is best to stick to it and not try to change.
- Be sure to emphasize the note following the illustration.

Objective 7

- Bring examples of the supplies needed for record keeping to class.
- Let the class members know that computers are extremely beneficial, but are not a necessity for achieving success.

Objective 8

- Discuss the two record systems to keep farm business records.
- You may or may not wish to show the class members an example of computerized records until later in this course.

  NOTE: Although many of the class members use computers now, it is best that they completely understand how to use the hand record system before working with computer programs. This will ensure their understanding of what goes into the records and how the records work.

Objectives 9 through 11

- Have class members enter the checks and deposits enclosed in the packet provided with each curriculum into their record books.
- Make sure that the class members follow the steps very carefully so that they may begin developing a standard process of completing entries in a farm record book.

Objective 12

- Write the types of farm income on the board and have class members present ideas for other types of farm income.

Objective 13

- Discuss the types of family living and non-farm business income.
- Poll the class for examples of each category listed in this section.

Objective 14

- Use this objective to cover the types of farm expenses.
- Poll class members for examples of each type of farm expense and write them on the board or overhead projector.
- Show examples of the categories in the record book.

Objective 15

- Discuss the types of family living and non-farm expenses.
- Poll class members for examples of each type of farm expense and write them on the board or overhead projector.
- Show examples of the categories in the record book.

Objective 16

- Discuss the benefits of a cash flow summary and steps in completing a cash flow summary.
- Explain the difference between cash available and cash used.
- Show an example of a cash flow summary.

Objective 17

- Explain the reasons for keeping non-farm and family living records.
- Remind the class members that they will need these records for tax purposes and for budgeting purposes.

APPLICATION

Objective 15

- Cover the steps in completing entries and types of farm income before having class members work on Assignment Sheet 1.
- Have class members complete Assignment Sheet 1. Be sure to discuss the results of Assignment Sheet 1 after the class finishes the assignment.

Objective 16

- Have class members complete Assignment Sheet 2 while using Assigment Sheet 1 as an example.
- Evaluate Assignment Sheet 2 during your on-the-farm visit.

EVALUATION

Written Test

- Explain to class members that they will be asked to demonstrate on the written test the actions listed in the specific objectives.
- Give test.

  NOTE: The written test may be given in sections if desired.
- Evaluate class members on assignment sheet activities if not previously done.
- Reteach and retest as necessary.
- Complete appropriate section of competency profile.
- Review individual and group performance in order to evaluate teaching methods. Adjust scope, sequence, or instructional approaches for additional lessons as required.

UNIT REFERENCE

- Steward, Jim. *Farm Business Management I.* Stillwater, Oklahoma: State Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, 1984.

OBJECTIVE 1

Match the terms associated with journal entry to their correct definitions.

- **Cash flow**—Cash received and cash spent during an accounting period
- **Cash flow projection**—Estimate of monthly cash flow over a period of time, usually one year
- **Cash flow summary**—Historical record of monthly cash inflows and outflows for a specified period of time, usually one year
- **Expenditure**—Any outlay of funds or materials as payment for goods and services
- **Farm income or expense**—Receipt or expenditure that is the result of some activity within the farm business
- **Farm record**—Historical data about a particular farm operation
- **Liquidity**—Farm business' capacity to generate sufficient cash to meet its financial obligations as they fall due; ability to convert assets quickly into cash
- **Non-farm income or expense**—Receipt or expenditure that is the result of some activity outside the farm business
- **Receipt**—Any fund, service, or material received as income from payment for commodities, services, or loans
- **Risk**—Unfavorable occurrence that can be assigned reasonably accurate odds on the chances of its happening
- **Uncertainty**—Occurrence that cannot be assigned accurate odds on the chances of its happening

OBJECTIVE 2

List reasons for keeping farm records.

- To comply with tax reporting requirements and to assist in tax planning and management

  EXAMPLE: Federal and state income tax, self-employment tax, employer/ employee taxes

  NOTE: The Internal Revenue Service requires a taxpayer to keep records to prepare an accurate income tax return and to ensure that the proper tax is paid.

- To measure financial success and progress of farm business over time

  EXAMPLES: Financial statements, whole-farm and detailed enterprise analyses

- To establish a factual basis for comparisons with past years, with goals that have been set, and with the performance of other comparable operations

  EXAMPLES: State and area comparative summary, class members' goals and objectives

- To aid in planning for the future by providing data that will help in estimating the effects of operational changes on economic conditions of the farm business

  EXAMPLES: Whole-farm planning, risk management, cash flow projections, investment analysis

- To aid in obtaining credit

  EXAMPLES: Cash flow projections, repayment schedules, net worth statements

OBJECTIVE 3

Explain the uses of the types of records most common to farm business management.

- Financial records indicate monetary receipts and expenditures during the year for the business. These records are used to develop financial information for the business. The minimum core of financial statements required in a well-managed business are:

  — Net worth statement—Balance sheet

  — Income statement—Profit and loss statement

— Projected cash flow

EXAMPLES: Crop sales, patronage dividends, government payments

- **Physical records**—Relate to the production of crop or livestock enterprises on the farm, the resources used, and are used for management analysis. Physical records do not indicate anything about financial position or outcome of the farm.

  EXAMPLES: Labor, feed, crop production

OBJECTIVE 4

Define the single-entry accounting procedure.

- **Single entry**—Records in which each transition is entered in only one account.

  NOTE: The single entry system is considered more practical for farm business application because the system reduces the amount of work involved in keeping records. The single entry system is less complicated and less time consuming than the double entry system.

OBJECTIVE 5

Explain briefly the cash and accrual methods of accounting.

- **Cash method**—Entries are made in accounts only after the cash or money has exchanged hands. A purchase is recorded when it is paid for, not when the transaction takes place. A receipt is recorded when the money is received, not when the sale is transacted, if at a different time.

  NOTE: This method is simple and flexible for tax purposes, but it results in fluctuating income year to year and the expenses are not deducted until paid.

- **Accrual method**—Follows the approach that income should be accurately described each year; therefore, transactions are recorded when binding whether money changes hands or not. Changes in inventory of crops, livestock, and supplies are also included.

  NOTE: This method is advantageous because the income is matched against the expenses, expenses may be deducted although payments are made in the following year, and income is more evenly spread out over a number of years. But it is difficult to get an exact inventory, and it does not postpone the payment of taxes. This method is difficult for most farmers to use.

OBJECTIVE 6

Explain the difference between the calendar year and fiscal year accounting periods.

- **Calendar year**—January 1 through December 31
- **Fiscal year**—Any twelve-month accounting period other than Jamuary 1 through December 31

  NOTE: The production period should be considered in selecting an accounting period that corresponds to the flow of receipts and expenses from major enterprises. The time period selected should be the one most meaningful in analyzing the activities of the business.

OBJECTIVE 7

Select the supplies needed for record keeping.

- Pencil or erasable ink pen
- Calculator with tape
- Large eraser
- Scratch paper
- Computer or hand record system

OBJECTIVE 8

Explain briefly the two record systems.

- **Hand Records**—Low cost and simple record system

  EXAMPLE: *Oklahoma Young Farmer Record Book*

- **Computerized records**—Time spent in record keeping is reduced, records are complete, accuracy checks are provided, and complete data and financial information is provided

  NOTE: While being more expensive, the computerized record system may offer advantages to a diversified operator or an operator with many entries to record.

OBJECTIVE 9

List steps in completing entries.

1. Become familiar with record book
2. Determine categories
3. Separate checks and deposit slips into categories

   EXAMPLES: Farm, non-farm, non-farm business

   NOTE: In January, take out all of the previous year's checks.
4. Make entry

   — List date of deposit or check

   — Total amount of dollars received

   — Give detailed description of transaction

   EXAMPLES: Acme Feed Store—1 ton oats

   County stockyards— 50 calves

   — Give check or deposit number

   — Give amount of quantity

   — List in appropriate category

   Income

   EXAMPLES: Crop sales, government payment, machine work

   Expenses

   EXAMPLES: Breeding fees, fertilizer, feed, labor
5. Be sure the sum of the "Total" column balances with the sum of the "Categories" column

OBJECTIVE 10

List the steps used in making an entry.

1. Enter beginning-of-year inventories

   NOTE: Be sure to include beginning balances for all accounts receivable and payable.

2. Set up depreciation schedule

3. Enter record of receipts, expenses, and production

   NOTE: Production records may include hired labor, upaid operators and family labor, crop and livestock production, breeding and mortality records, feed allocation, and home use.

4. Enter end-of-year inventories

5. Complete depreciation schedule

6. Complete farm analysis

   EXAMPLES: Taxes, financial statements, whole farm analysis, detailed enterprise analysis

OBJECTIVE 11

Select suggestions for making entries in a farm record book.

- Become familiar with your record book before using it

  NOTE: Read carefully all directions and instructions given in your book. Study the index and practice locating various parts of the book.

- Use book markers to identify work areas

  EXAMPLE: Paper clips

- Fill every line of each page completely before going to the next page

  NOTE: Begin a new page for each month.

- Subtotal each page, and total the last page each month

- Use a sharp pencil with a medium-hard lead

OBJECTIVE 12

List types of farm income.

NOTE: The *Farmer's Tax Guide* may provide additional information on farm income.

- **Crop sales**—Receipts from sale of raised crops

  EXAMPLES: Wheat, alfalfa hay, peanuts, vegetables, cotton, and fruits

- **Patronage dividends**—Dividends received from a cooperative

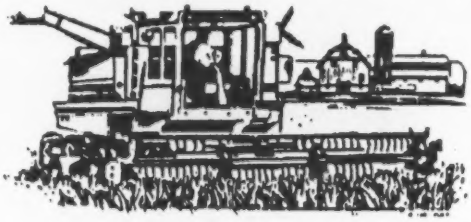
  NOTE: Income should include both cash received and capital stock. Capital stock may be shown as a deduction, as a capital purchase, or as an account receivable.

- **Government payments**—Receipts from participation in government programs

  EXAMPLES: SCS conservation program, ASCS deficiency payments, disaster payments

- **Machine work**—Payment received for doing machine work for someone else

  EXAMPLES: Plowing, harvesting, cultivating



- **Cash rent**—Rent received from material participation in farming operation

  EXAMPLE: Received share of crop production for which farmer provided land and paid a percentage of the fertilizer cost

  NOTE: Generally, the rent received for use of farmland is rental income, not farm income. If the farmer did not materially participate in the farm from which crop shares were received, the income is not farm income and must be reported as non-farm rental income.

- **Livestock products**—Receipts from products produced by livestock

  EXAMPLES: Milk, eggs, meat, wool

- **Raised non-breeding livestock**—Receipts from sale of livestock not included in breeding herd

  EXAMPLES: Calves, pigs, lambs, yearling steers, barrows, wethers, yearling heifers

  NOTE: When recording receipts, be sure to include number of head and pounds sold.

- **Other farm income**

  EXAMPLES:

  — **Crop insurance**—Proceeds received as the result of crop damage

    NOTE: Generally, crop insurance proceeds must be reported in the year that they are received. However, reporting may be postponed until the following year if the cash method of accounting is used.

  — **Commodity credit loans (CCC)**—Proceeds received from participating in CCC loan program

    NOTE: The farmer can elect to report a CCC loan as income in the year the loan is received instead of the year the commodity is finally sold. Once a loan has been reported as income in the year received, however, all succeeding loans must be reported in the same way unless permission is obtained from the IRS to change to a different method.

  — **Miscellaneous**—Receipts from the sale of items not included in other income categories

    EXAMPLES: Timber sales, sale of sod, fuel tax credit, easement or right-of-way payment

  — **Refunds**—Amounts reimbursed for an item for which a farmer has taken a deduction

    EXAMPLES: Expense reimbursements, insurance proceeds, rebates

— **Other resales**—Receipts from items purchased for resale

EXAMPLES: Baler wire, wire panels, hay, grain

NOTE: If the items were deducted as farm expenses, then the total receipts should be entered. If the items were purchased with resale in mind, then only net gain is taxable, as with livestock purchased for resale.

- **Livestock purchased for resale**—Receipts from sale of livestock purchased for resale

  NOTE: When recording receipts, be sure to include total number of head and pounds sold. For tax purposes, keep a record of the cost of the resale livestock.

- **Breeding livestock**—Receipts from sale of breeding livestock

- **Inflow from loans**—Loan proceeds credited to the farm account

- **Non-farm receipts**—Receipts from non-farm sources credited to the farm account

  EXAMPLES: Oil royalties, lease payments, etx.

- **Farm capital assets**—Receipts from sale of capital assets

  EXAMPLES: Machinery, equipment, land

OBJECTIVE 13

Select types of family living and non-farm business income

- Wages, salaries, and other earnings

  NOTE: Wages include gross wages as non-farm income, and deductions as non-farm expenses.

- Rental

  EXAMPLES: Rent house, rent received for use of farmland, rent received in crop shares

- Nontaxable

  EXAMPLES: Gifts from others, inheritances, life insurance proceeds, interest on tax-free bonds, Social Security benefits, money borrowed, payments from others on accounts receivable

- Interest received

  EXAMPLES: Savings account, NOW checking account, U.S. Savings Bonds

- Investments

  EXAMPLES: Dividends, stock distributions, partnership income, investment clubs

- Depletion income

  EXAMPLES: Oil and gas royalties, lease bonuses

OBJECTIVE 14

List types of farm expenses.

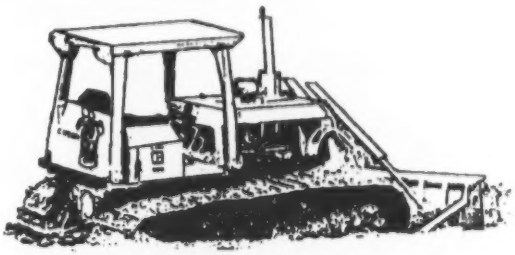
- **Breeding fees**—Amounts paid for breeding of farm livestock

  EXAMPLE: Embryo transplant

- **Chemicals**—Amounts paid for herbicides and insecticides used in farming including the cost for application

- **Conservation and land clearing**—Amounts paid for soil and water conservation in respect to land used for farming or for the prevention of erosion to land used in farming

  NOTE: Expenditure should be prorated over several years.



- **Feed**—Amounts paid for feed to be consumed by livestock

  EXAMPLES: Hay, supplements, grain, prepared feeds

  NOTE: If income is reported by the cash method, amounts paid for feed to be consumed by livestock in the year of payment are deductible in the year paid. If advance payments for feed to be consumed by livestock are made in a later tax year, the expense may be deductible in the year paid rather than over the tax years in which the feed is consumed, but only if certain guidelines are met.

- **Fertilizers and lime**—Amount paid for materials to enrich, neutralize, or condition land used in farming, including the cost of application

  NOTE: Fertilizer and lime are usually current expenses, but if the value extends over several years, the expenditures could be prorated if a special election is made.

- **Freight and trucking**—Amounts paid for transportation to market and for business travel and entertainment

  NOTE: Trucking expenses on materials used to build new buildings or make improvements on old buildings are part of the depreciable cost of the new asset or improvement. Transportation expenses in delivering livestock to the farm should be capitalized and added to the cost of the animal. Business travel and entertainment expenses are deductible, but the farmer must be very careful to preserve precise records of travel and entertainment and to show that the expense is closely related to the farm business.

- **Fuel and oil**—Amounts paid for cost of gasoline, fuel, and oil used in the farm business

  EXAMPLES: Irrigation fuel, tractor diesel

  NOTE: Automobile gasoline expense is deductible only to the extent that the vehicle used is for farm business. The cost of fuel for heating, lighting, or cooking in the home is not deductible except to the extent that these expenses are incurred for hired help or other business purposes.

- **Insurance**—Amounts of premiums paid for casualty insurance on assets used in the farm business and for life, health, and accident insurance policies for employees

  NOTE: A self-employed farmer may deduct premiums on insurance to pay overhead expenses while disabled. Premiums on multi-year policies must be prorated over the life of the policy even though the taxpayer is on the cash basis. Automobile insurance is usually deducted only for the business use of the vehicle.

- **Labor hired**—Amounts of reasonable wages paid for regular farm labor, piecework contract labor, and other forms of labor hired to perform farming operations

  EXAMPLES: Farm labor, cotton choppers, wages paid to own children, cost of boarding hired labor

  NOTE: Hired labor may be subject to Social Security tax. If the farmer is required to withhold Social Security tax from employees' cash wages, the full amount of wages before withholding is deductible.

- **Machine hired**—Amounts paid for hiring machinery to carry on farming operation

  EXAMPLES: Plowing, custom harvest

  NOTE: Machine hired for moving earth, building ponds, or other conservation work is a deductible soil and water conservation expense or land-clearing expense if an election is made. If no election is make, no deductible is allowed and the cost is added to the basis of the farm. Also, the cost of equipment and labor hired to build fences, bins, feeding platforms, additions to structures, or other assets is not deductible but is included as part of the depreciable cost.

- **Mortgage interest**—Amounts paid on farm real estate mortgages

  NOTE: If income is reported by the cash method, only amounts of interest paid during the year of payment are deductible. Generally, interest paid in advance is not deductible until due. Loan expenses, such as legal fees, commissions, and others paid in obtaining a farm loan, must be prorated over the period of the loan.

- **Other farm interest**—Amounts paid on other obligations incurred to carry on the farm business

  NOTE: Interest paid on loans not collateralized with real estate.

- **Rent**—Amounts paid in cash

  EXAMPLES: Cash rent for cropland, lease arrangement on farm machinery

  NOTE: Rent paid in crop shares is not deductible because the costs of raising the crops have been deducted as farming expenses. Advance payments of rent can be deducted only in the year for which they apply, regardless of accounting method. A payment for standing crops, such as wheat pasture of native grass, is properly a feed deduction.

- **Repairs and maintenance**—Amounts paid for supplies necessary to maintain assets used in the farm business

  EXAMPLES: Repainting, replacing of shingles and supports on farm buildings, minor overhauls of farm machinery and equipment

  NOTE: Repairs to depreciable property that substantially prolong the life of the property or that increase its value or adapt it to a different use are capital expenses. If the farmer repairs the barn roof, the cost is deductible, but if the farmer replaces the barn roof, the cost is a capital expense.

- **Seeds and plants**—Amounts paid for seeds and plants used in farming

  EXAMPLES: Seed wheat, alfalfa seed

  NOTE: Seeds and plants used in the garden cannot be deducted.

- **Storage**—Amounts paid for commercial storage of farm commodities

- **Supplies**—Amounts paid for any item that was bought for use in the farm business

  EXAMPLES: Small hand tools, fan belts, bolts, consumable supplies

  NOTE: Generally, an item that would otherwise be a repair is properly treated as a supply if the farmer buys a number of the item at one time in order to have it available when needed. Ordinarily, an item having a useful life or more than a year should be depreciated, and the original cost should not be deducted in the year of purchase. A consistent practice is the deduction of items of relatively small cost because the amounts are too small to enter on the depreciation schedule.

- **Taxes**—Amounts of taxes incurred in the farm business

  EXAMPLES: Real estate and personal property taxes on farm business assets, Social Security taxes paid on hired labor, registration fees for farm vehicles

  NOTE: State and federal income taxes are not deductible as farm business expenses. Other taxes not deductible as farm taxes are self-employment tax, gift or death taxes, and taxes on property belonging to someone else.

- **Utilities**—Percentage of amounts paid attributable to business use

  EXAMPLES: Electricity, rural water, telephone

- **Veterinary medicine**—Amounts paid for veterinarian services and livestock medicine

- **Miscellaneous expenses**—Amounts paid for items not included in other expense categories

  EXAMPLES: Bank service charge, sales commissions

- **Purchased for resale**—Amounts paid for livestock and other items to be resold

  NOTE: When recording expenses, be sure to include total number of head and pounds purchased. For tax purposes, the farmer cannot deduct the cost of the animals until they are sold.

- **Breeding livestock purchases**—Amounts paid for purchase of breeding livestock

- **Land, Buildings, Improvements**—Amounts paid for purchase of capital assets

  EXAMPLES: For tax purposes, the capital asset purchases are handled separately from other farm deductions. There are special rules for capitalization, depreciation, and depletion.

- **Raised non-breeding livestock**—Receipts from sale of livestock not included in breeding herd

OBJECTIVE 15 **List types of family living and non-farm expenses.**

- Personal, living, and family

  EXAMPLES: Itemized deductions, groceries, utilities for home, life insurance premiums, personal auto, household expenses

- Non-farm business

  EXAMPLES: Investments, travel to and from another job

- Nontaxable

  EXAMPLES: Gifts, fines and penalties, hobbies, principal paid

OBJECTIVE 16 **Explain briefly benefits of a cash flow summary.**

- Provides record of monthly cash inflows and outflows

  EXAMPLES: Cash available, cash used

- Allows an accuracy check with bank statement

  NOTE: Beginning and ending cash balances can be compared with bank statement.

- Allows comparison with cash flow projection

OBJECTIVE 17 **List the steps in completing a cash flow summary.**

- Column totals from each month are transferred to cash flow summary page with corresponding column line number
- Cash flow summary page is totaled monthly
- Ending cash balance for each month will balance with bank statement

OBJECTIVE 18 **Select the reasons for keeping non-farm and family-living records.**

- Identifying family-living records and expenses

  EXAMPLES: Off-farm salary, groceries, utilities for home

- Accounting for income and expenses not listed in farm records
- Developing future family budgets
- Identifying non-farm business income and expenses

ASSIGNMENT SHEET 1	JOURNAL ENTRY	III

NAME _____ SCORE _____

OBJECTIVE 19

COMPLETE SAMPLE ENTRIES OF DEPOSITS AND CHECKS INTO RECORD BOOK

INTRODUCTION

In order to maintain an accurate record book, it is extremely important to enter your checks and deposits under the appropriate categories. This assignment sheet will help enforce your current skills in reconciling a bank statement and entering information in a record book or will help you develop those skills.

DIRECTIONS

Follow the steps described in the Information Sheet for reconciling a bank statement and entering the checks and deposits into a record book. Use the statement, checks, deposits on the following pages and the record book pages provided by your instructor to complete this assignment.

SUN NATIONAL BANK & TRUST COMPANY

Auction City, OK 70000
Phone: 555-1234

ACCOUNT NO.
0-000-001

U.R. RICH
Route 1, Box 333
Auction City, OK 70000

STATEMENT DATE
02-22-87

PAGE 1

CHECKING STATEMENT SUMMARY . . . . . .

Previous Statement 1-22-87, Balance of	430.93
6 Deposits or other credits totaling	13,225.00
17 Checks or other debits totaling	8,570.90
Service charge amount	5.00
CURRENT BALANCE AS OF 2-22-87	5,080.03

DATE	CK NO.	DESCRIPTION	WITHDRAW	DEPOSITS	BALANCE
1/22		Deposit		125.00	555.93
1/14	433	Withdraw	32.00		523.93
1/27		Deposit		8,000.00	8,523.93
1/18	434	Withdraw	600.00		7,923.93
1/21	436	Withdraw	57.55		7,866.38
1/29	437	Withdraw	43.50		7,822.88
1/29	440	Withdraw	133.85		7,689.03
1/30	441	Withdraw	65.00		7,624.03
2/4	444	Withdraw	80.00		7,544.03
2/5	445	Withdraw	250.00		7,294.03
2/7	446	Withdraw	4,500.00		2,794.03
2/8	448	Withdraw	1,400.00		1,394.03
2/9	449	Withdraw	200.00		1,194.03
2/11		Deposit		2,500.00	3,694.03
2/11	450	Withdraw	50.00		3,644.03
2/12		Deposit		300.00	3,944.03
2/13	454	Withdraw	100.00		3,844.03
2/14	456	Withdraw	75.00		3,769.03
2/15	457	Withdraw	375.00		3,394.03
2/16		Deposit		500.00	3,894.03
2/19	461	Withdraw	22.00		3,872.03
2/19		Deposit		1,800.00	5,672.03
2/21	462	Withdraw	587.00		5,085.03
2/22		Serrvice Charge	5.00		5,080.03

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 433

Jan. 14, 19 XX

PAY TO THE ORDER OF Joe Smith $ 32 00

Thirty-two and 00/100

SUN

Memo 16 Bales Alfalfa U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 434

Jan. 18, 19 XX

PAY TO THE ORDER OF Red's Angus Farm $ 600 00

Six hundred and 00/100

SUN

Memo 2 yr. old bull 1400# U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 436

Jan. 21, 19 XX

PAY TO THE ORDER OF Wal-Mart $ 57 55

Fifty-seven and 55/100

SUN

Memo _____ U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 437

Jan. 29, 19 XX

PAY TO THE ORDER OF Local Co-op $ 43 50

Forty-three and 50/100

SUN

Memo Gas - pickup (farm) U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 440

Jan. 29, 19 XX

PAY TO THE ORDER OF Johnathan Doe $ 133 85

One hundred thirty-three and 85/100

SUN

Memo Wages U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 441

Jan. 30, 19 XX

PAY TO THE ORDER OF Glen's Grocery $ 65 00

Sixty-five and 00/100

SUN

Memo groceries U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 444

Feb. 4, 19 XX

PAY TO THE ORDER OF REC $ 80.00

Eighty and 00/100

SUN

Memo utilities - ½ farm ½ person.

U.R.Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 445

Feb. 5, 19 XX

PAY TO THE ORDER OF Local Co-op $ 250.00

Two hundred fifty and 00/100

SUN

Memo 4000# hog feed

U.R.Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 446

Feb. 7, 19 XX

PAY TO THE ORDER OF Local State Bank $ 4500.00

Four thousand, five hundred and 00/00

SUN

Memo Note: $500 int. $4,000 princ.

U.R.Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 448

Feb. 8, 19 XX

PAY TO THE ORDER OF Local Co-op $ 1400 00

One thousand, four hundred and 00/100

SUN

Memo 8 tons 18-46-0 for wheat

U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 449

Feb. 9, 19 XX

PAY TO THE ORDER OF John Deere $ 200 00

Two hundred and 00/100

SUN

Memo Tractor Repairs

U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 454

Feb. 13, 19 XX

PAY TO THE ORDER OF Local Co-op $ 100 00

One hundred and 00/100

SUN

Memo Farm gas - 100 gal. @ $1.00/gal

U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 456

Feb. 14, 19 XX

PAY TO THE ORDER OF Green Beans Auto Parts $ 75.00

Seventy-five and 00/100

SUN

Memo Truck Repairs

U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 457

Feb. 15, 19 XX

PAY TO THE ORDER OF Pride Life Insurance $ 375.00

Three hundred seventy-five and 00/100

SUN

Memo Life Ins.

U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 461

Feb. 19, 19 XX

PAY TO THE ORDER OF Local Vet. Supply $ 22.00

Twenty-two and 00/100

SUN

Memo Vet. Supply

U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 462

Feb. 21, 19 XX

PAY TO THE ORDER OF Farm Bureau Ins. $ 587.00

Five hundred eighty-seven and 00/100

SUN

Memo Property & Equip. Ins.

U. R. Rich

U. R. RICH
ROUTE 1, Box 333
Auction City, OK 70000

No. 450

Feb. 11, 19 XX

PAY TO THE ORDER OF Dr. Jim Cutter $ 50.00

Fifty and 00/100

SUN

Memo Dr. Bill for Jr.

U. R. Rich

DEPOSIT TICKET

U. R. Rich
Route 1, Box 333
Auction City, OK 70000

DATE Jan. 27, 19XX

U. R. Rich
SIGN HERE FOR CASH RECEIVED (IF REQUIRED)

SUN NATIONAL AND TRUST CO.
Auction City, OK 70000

CASH / CURRENCY		
COIN		
LIST CHECKS SINGLY		
Coop	8100	–
(Wheat 4000#		
@2.00)		
TOTAL FROM OTHER SIDE		
TOTAL	8100	–
LESS CASH RECEIVED	100	–
NET DEPOSIT	8000	–

USE OTHER SIDE FOR ADDITIONAL LISTING

BE SURE EACH ITEM IS PROPERLY ENDORSED

DEPOSIT TICKET

U. R. Rich
Route 1, Box 333
Auction City, OK 70000

DATE Feb. 18, 19XX

U. R. Rich
SIGN HERE FOR CASH RECEIVED (IF REQUIRED)

SUN NATIONAL AND TRUST CO.
Auction City, OK 70000

CASH / CURRENCY		
COIN		
LIST CHECKS SINGLY		
Wilson Packers	1,891	–
(21 pur. barrows)		
TOTAL FROM OTHER SIDE		
TOTAL	1,891	–
LESS CASH RECEIVED	91	–
NET DEPOSIT	1,800	–

USE OTHER SIDE FOR ADDITIONAL LISTING

BE SURE EACH ITEM IS PROPERLY ENDORSED

DEPOSIT TICKET

U. R. Rich
Route 1, Box 333
Auction City, OK 70000

DATE Feb. 16, 19XX

U. R. Rich
SIGN HERE FOR CASH RECEIVED (IF REQUIRED)

SUN NATIONAL AND TRUST CO.
Auction City, OK 70000

CASH / CURRENCY		
COIN		
LIST CHECKS SINGLY		
Sale Barn	624	–
(2 cows, raised		
825# each)		
TOTAL FROM OTHER SIDE		
TOTAL	624	–
LESS CASH RECEIVED	124	–
NET DEPOSIT	500	–

USE OTHER SIDE FOR ADDITIONAL LISTING

BE SURE EACH ITEM IS PROPERLY ENDORSED

DEPOSIT TICKET

U. R. Rich
Route 1, Box 333
Auction City, OK 70000

DATE Jan. 22 19 XX

SIGN HERE FOR CASH RECEIVED (IF REQUIRED)

SUN NATIONAL AND TRUST CO.
Auction City, OK 70000

CASH CURRENCY		
COIN		
LIST CHECKS SINGLY		
Co-op	125	-
(Dividend)		
TOTAL FROM OTHER SIDE		
TOTAL	125	-
LESS CASH RECEIVED	-0-	
NET DEPOSIT	125	-

USE OTHER SIDE FOR ADDITIONAL LISTING

BE SURE EACH ITEM IS PROPERLY ENDORSED

DEPOSIT TICKET

U. R. Rich
Route 1, Box 333
Auction City, OK 70000

DATE Feb. 12, 19 XX

U. R. Rich

SIGN HERE FOR CASH RECEIVED (IF REQUIRED)

SUN NATIONAL AND TRUST CO.
Auction City, OK 70000

CASH CURRENCY		
COIN		
LIST CHECKS SINGLY		
Harold's	375	-
Hardware		
TOTAL FROM OTHER SIDE		
TOTAL	375	-
LESS CASH RECEIVED	75	-
NET DEPOSIT	300	-

USE OTHER SIDE FOR ADDITIONAL LISTING

BE SURE EACH ITEM IS PROPERLY ENDORSED

DEPOSIT TICKET

U. R. Rich
Route 1, Box 333
Auction City, OK 70000

DATE Feb. 11, 19 XX

SIGN HERE FOR CASH RECEIVED (IF REQUIRED)

SUN NATIONAL AND TRUST CO.
Auction City, OK 70000

CASH CURRENCY		
COIN		
LIST CHECKS SINGLY		
Sun National	2,500	-
Loan		
TOTAL FROM OTHER SIDE		
TOTAL	2,500	-
LESS CASH RECEIVED	-0-	
NET DEPOSIT	2,500	-

USE OTHER SIDE FOR ADDITIONAL LISTING

BE SURE EACH ITEM IS PROPERLY ENDORSED

ASSIGNMENT SHEET 2	JOURNAL ENTRY	III

NAME _____ SCORE ____

OBJECTIVE 20

COMPLETE YOUR ENTRIES OF DEPOSITS AND CHECKS INTO RECORD BOOK

INTRODUCTION

Journal entry is the basis for all of your farm business records. It is extremely important that you can record all expenses and credits in your record book. Now that you have completed sample journal entries, you need to demonstrate your ability to perform your own journal entries.

DIRECTIONS

Using your own bank statement and record book, complete your journal entries for this month.

ANSWERS TO ASSIGNMENTS	JOURNAL ENTRY	III

ASSIGNMENT SHEET 1

This assignment sheet should be graded through careful evaluation of how well the class member followed directions, how the class member used the proper forms, and how legible the information was transferred onto the forms.

ASSIGNMENT SHEET 2

This assignment sheet should be graded through careful evaluation of how well the class member followed directions, how the class member used the proper forms, and how legible the information was transferred onto the forms.

WRITTEN TEST	JOURNAL ENTRY	III

NAME _____ SCORE _____

OBJECTIVE 1

Match the terms related to journal entry to their correct definitions. Place the correct letter on the blanks.

__1. Any outlay of funds or materials as payment for goods and services	a. Receipt
__2. Occurrence that cannot be assigned accurate odds on the chances of its happening	b. Farm record
__3. Cash received and cash spent during an accounting period	c. Non-farm income or expense
__4. Unfavorable occurrance that can be assigned reasonably accurate odds on the chances of its happening	d. Cash flow
__5. Historical data about a particular farm operation	e. Expenditure
__6. Receipt or expenditure that is the result of some activity within the farm business	f. Cash flow projection
__7. Farm business' capacity to generate sufficient cash to meet its financial obligations as they fall due	g. Cash flow summary
__8. Estimate of monthly cash flows over a period of time, usually one year	h. Liquidity
__9. Receipt or expenditure that is the result of some activity outside the farm business	i. Farm income or expense
__10. Any fund, service, or material received as income from payment for commodities, services, or loans	j. Risk
__11. Historical record of monthly cash inflows and outflows for a specified period of time, usually one year	k. Uncertainty
	l. Checks
	m. Deposits
	n. Projections
	o. Luck

OBJECTIVE 2 List five reasons for keeping farm records and give an example of each reason.

_____

_____

_____

_____

_____

OBJECTIVE 3 Explain the uses of the two types of records.

_____

_____

OBJECTIVE 4 Define the single-entry type of accounting.

_____

_____

OBJECTIVE 5 Explain the cash method and accrual method of accounting.

Cash method— _____

_____

Accrual method— _____

_____

OBJECTIVE 6 Explain briefly the accounting periods.

_____

_____

_____

OBJECTIVE 7 **Select the supplies needed for record keeping.**

__ 1. Computer or hand record system

__ 2. Calculator with tape

__ 3. Large eraser

__ 4. Scratch paper

__ 5. Pencil or erasable ink pen

OBJECTIVE 8 **Briefly explain the two record systems.**

- _____
- _____

OBJECTIVE 9 **List the steps in completing entries.**

_____

_____

_____

_____

OBJECTIVE 10 **List the steps used in making an entry.**

_____

_____

_____

_____

_____

_____

OBJECTIVE 11 **Select suggestions for making entries in a farm record book.**

__ 1. Become familiar with your record book before using it

__ 2. Use book markers to identify work areas

__ 3. Fill every line of each page completely before going to the next page

__ 4. Subtotal each page, and total the last page each month

__ 5. Use a sharp pencil with a medium-hard lead

OBJECTIVE 12 **List eight types of farm income.**

_____

_____

_____

_____

_____

_____

_____

_____

OBJECTIVE 13 **Select types of family living and non-farm business income.**

__ 1. Wages, salaries, and other earnings

__ 2. Machinery

__ 3. Interest received

__ 4. Interest paid on automobiles

__ 5. Nontaxable

__ 6. Investments

__ 7. Depletion income

__ 8. Rental

__ 9. Farm supplies

OBJECTIVE 14 **List types of farm expenses.**

_____

_____

_____

_____

_____

_____

_____

_____

_____

_____

OBJECTIVE 15 **List three types of family living and non-farm expenses.**

_____

_____

_____

OBJECTIVE 16 **Explain briefly the benefits of a cash flow summary.**

_____

_____

_____

_____

OBJECTIVE 17 **List the steps in completing a cash flow summary.**

1. _____

2. _____

3. _____

OBJECTIVE 18 **Select the reasons for keeping non-farm and family-living records.**

__ 1. Identifying family-living records and expenses

__ 2. Accounting for income and expenses not listed in farm records

__ 3. Avoiding payment of taxes

__ 4. Developing future family budgets

__ 5. Converting funds from non-farm records to farm records

__ 6. Identifying non-farm business income and expenses

NOTICE: The following assignment sheets are not part of the written test. If these activities have not been completed, check with your instructor.

OBJECTIVE 19 **Complete sample entries of deposits and checks into a record book.** SCORE ____

OBJECTIVE 20 **Complete your entries of deposits and checks into a record book.** SCORE ____

OBJECTIVE 1B

1. e
2. k
3. d
4. j
5. b
6. i
7. h
8. f
9. c
10. a
11. g

OBJECTIVE 2

- To comply with tax reporting requirements and to assist in tax planning and management
- To measure financial success and progress of farm business over time
- To establish a factual basis for comparisons with past years, with goals that have been set, and with the performance of other comparable operations.
- To aid in planning form the future by providing data that will help in estimating the effects of operational changes on economic conditions of the farm business
- To aid in obtaining credit

OBJECTIVE 3

- Financial records indicate monetary receipts and expenditures during the year for the business. These records are used to develop financial information information for the business.
- Physical records relate to the production of crop or livestock enterprises on the farm, the resources used, and are used for management analysis. Physical records do not indicate anything about financial position or outcome of the farm.

OBJECTIVE 4

Single entry—Records in which each transition is entered in only one account

OBJECTIVE 5

- **Cash method**—Entries are made in accounts only after the cash or money has exchanged hands.
- **Accrued method**—Follows the approach that income should be accurately described each year; therefore, transactions are recorded when binding whether money changes hands or not.

OBJECTIVE 6

- **Calender year**—January 1 through January 1
- **Fiscal year**—Any twelve-month accounting period other than January 1 through December 31

OBJECTIVE 7

1, 2, 3, 4, 5, 6

OBJECTIVE 8

Explaination should include

- **Hand Records**— Low cost and simple record system
- **Computerized records**—Time spent in record keeping is reduced, records are complete, accuracy checks are provided, and complete data and financial information is provided

OBJECTIVE 9

1. Become familiar with record book
2. Determine categories
3. Separate checks and deposit slips into categories
4. Make entry

OBJECTIVE 10

1. Enter beginning-of-year inventories
2. Set up depreciation schedule
3. Enter record of receipts, expenses, and produciton
4. Enter end-of-year inventories
5. Complete depreciation schedule
6. Complete farm analysis

OBJECTIVE 11 1, 2, 3, 4, 5

OBJECTIVE 12 Answer should include any eight of the following

- Crop sales
- Patronage dividends
- Refunds
- Government payments
- Machine work
- Cash rent
- Livestock products
- Commodity credit loans (CCC)
- Crop insurance
- Miscellaneous
- Resales
- Livestock purchased for resale
- Breeding Livestock
- Farm capital assets

OBJECTIVE 13 1, 3, 5, 6, 7

OBJECTIVE 14 Any ten of the following

- Breeding fees
- Chemicals
- Conservation and land clearing
- Feed
- Fertilizers and lime
- Freight and trucking
- Fuel and oil

- Insurance
- Labor hired
- Machine hire
- Mortgage interest
- Other farm interest
- Rent
- Repairs and maintenance
- Seeds and plants
- Storage
- Supplies
- Taxes
- Utilities
- Veterinary medicine
- Miscellaneous expenses
- Purchased for resale
- Breeding livestock purchases
- Land, buildings, improvements

OBJECTIVE 15

- Personal, living, and family
- Non-farm business
- Nontaxable

OBJECTIVE 16

Answers should include the following

- Provides record of monthly cash inflows and outflows
- Allows an accuracy check with bank statement
- Allows comparison with cash flow projection

OBJECTIVE 17

1. Column totals from each month are transferred to cash flow summary page with corresponding column line number
2. Cash flow summary page is totaled monthly
3. Ending cash balance for each month will balance with bank statement

OBJECTIVE 18

1, 2, 4, 6

OBJECTIVE 19

Refer to anwers to Assignment Sheet 1.

OBJECTIVE 20

Refer to anwers to Assignment Sheet 2.

OBJECTIVE SHEET	ENTERPRISE ACCOUNTING AND SUPPLEMENTAL RECORDS	IV

UNIT OBJECTIVE

After completing this unit, the class member should be able to record livestock and crop enterprise and supplemental data for a year-end detailed enterprise analysis. The class member will demonstrate these competencies by completing the assignment sheets and written test with a minimum of 85 percent accuracy.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to

1. Match to their correct definitions terms associated with enterprise accounting and supplemental records.
2. State purposes of enterprise accounting.
3. Match to their correct descriptions ways to classify enterprises for an enterprise record and analysis.
4. State guidelines for allocating farm receipts and expenditures to various enterprises.
5. Select from a list guidelines for allocating entries to overhead enterprise.
6. State purposes for keeping supplemental records.
7. Match types of supplemental records to their appropriate uses.
8. Determine what farm business enterprises will be used for enterprise records and analysis. (Assignment Sheet 1)
9. Post on the proper enterprise record monthly transactions for farm receipts and expenditures. (Assignment Sheet 2)
10. Complete an enterprise cash flow summary. (Assignment Sheet 3)
11. Complete a crop and feed balance record form. (Assignment Sheet 4)
12. Complete a livestock production summary. (Assignment Sheet 5)
13. Complete a crop production summary. (Assignment Sheet 6)
14. Complete a monthly labor summary. (Assignment Sheet 7)

SUGGESTED ACTIVITIES	ENTERPRISE ACCOUNTING AND SUPPLEMENTAL RECORDS	IV

PREPARATION

Order and obtain materials to supplement unit.

- Make copies (one for each class member) of the appropriate supplemental record forms for this unit.

DELIVERY

Introduction

- Discuss unit and specific objectives.
- Emphasize the importance of keeping complete and accurate records.

  EXAMPLES: Discuss state and area comparative enterprise analysis and compare with farm operators answers. Do farmers know the returns and cost of production for their farms' major enterprises?

- Discuss the need for a records system that can provide financial and supplemental information necessary to complete enterprise records.

Objective 1

- Discuss Objective 1, pointing out that a number of unfamiliar terms will be used in the unit.

Objective 2

- Discuss the purposes of enterprise accounting.
- Explain the importance of keeping complete financial and supplemental records necessary for keeping enterprise accounts.

Objective 3

- Emphasize the importance of determining at the beginning of the accounting period the enterprise that will be used for analysis.

Objective 4

- Use copies of supplemental record forms to discuss record forms that may be used to record monthly enterprise transactions.
- Point out that capital asset sales and purchases will also be allocated through changes in inventory.
- Emphasize that loans are cash flow and not income or expense.

Objective 5

- Explain that no one method of allocating entries in the overhead enterprise applies universally and that several methods may be applied to the various entries incurred in a single enterprise.

Objective 6

- Explain that supplemental records normally include physical or production records and other items of special importance to an individual farm or ranch. A positive return for the farm business or detailed enterprise analysis comes partly as a result of wise choices concerning costs and prices of products, but also from efficient use of land, labor, feeds, and other materials.
- Complete records provide a basis for comparison of performance levels between enterprises and between farms as standards over time.

Objective 7

- Explain that additional forms may be developed to satisfy the needs of an individual farm or ranch situation.
- Encourage class members to allocate receipts and expenditures each month to the enterprises they have selected for analysis.

APPLICATION

Objective 8

- Have class members complete Assignment Sheet 1 during your discussion of farm business enterprises used in enterprise records and analysis.

Objective 9

- Have class members complete Assignment Sheet 2 to learn how to allocate receipts and expenditures to an enterprise.
- Have class members complete Assignment Sheet 3 to learn how to compile monthly and yearly totals for use in completing a detailed enterprise analysis.

Objectives 10 through 14

- Have them complete Assignment Sheet 4 through 7 to learn what information is needed to supplement financial records for a year-end analysis of the farm business.

  NOTE: During scheduled on-farm instruction, assist class members in determining what supplemental records will be needed to meet their record systems's objectives.

EVALUATION

Written Test

- Explain to class members that they will be asked to demonstrate on the written test those actions listed in the specific objectives.
- Give test.

  NOTE: The written test may be administered in sections if desired.
- Evaluate class members on assignment sheet activities if not previously done.
- Critique test.
- Reteach and retest if necessary.
- Complete appropriate section of competency profiles.
- Review individual and group performance in order to evaluate teaching methods. Adjust scope, sequence, or instructional approaches for additional lessons as required.

UNIT REFERENCE

- Steward, Jim. *Farm Business Management, Volume I.* Stillwater, Oklahoma: Oklahoma State Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, 1984.

OBJECTIVE 1

Match terms associated with enterprise accounting and supplemental records to their correct definitions.

- **Enterprise**—Unit of economic organization in the farm business

  EXAMPLES: Cow/calf, stocker cattle, swine, dairy replacement, wheat, alfalfa hay, cotton, peanuts, hay

- **Enterprise accounting**—Detailed recording of all income and expense items directly related to a specific enterprise

- **Production records**—Information that normally details yield, production, or physical performance measures of an enterprise

  NOTE: Production records are one type of supplemental records.

- **Supplemental records**—Additional information to financial records that aids in providing a complete records system

OBJECTIVE 2

State purposes of enterprise accounting.

- To pinpoint level of profitability and factors affecting profitability during accounting periods

  EXAMPLE: Records may show that feeding wheat is more profitable than selling wheat.

- To aid class member in decision-making by using historical records to reveal levels of performance from year to year

  EXAMPLES: DHIA records, feed records

- To determine management's performance through comparisons over a specific time period

  EXAMPLES: Implementation of new technology; upgrading of dairy herd based on DHIA records

OBJECTIVE 3

Match to the correct descriptions ways to classify enterprises for an enterprise record and analysis.

- **Major enterprise**—Enterprise that contributes large portion of income to farm business

  EXAMPLES: Wheat, beef cattle, peanuts, dairy, swine

- **Minor enterprise**—Enterprise that contributes small portion of income to farm business

  NOTE: Minor enterprises will have little effect on the management decisions of the farm business.

- **Overhead enterprise**—Income and expenses that cannot be directly attributed to an enterprise at the time incurred

  EXAMPLES: Real estate taxes, interest, utility bills, supplies

  NOTE: At the end of the accounting periods, the items in the overhead enterprise account should be allocated among enterprises for analysis purposes.

- **Detailed enterprise**—Subdivision of a major enterprise

  EXAMPLES: Divide hog enterprise into farrowing to weaning and finishing; divide wheat enterprise by field or soil type; divide beef cattle enterprise into cow/calf, stockers, or finishing.

OBJECTIVE 4

State guidelines for allocating farm receipts and expenditures to various enterprises.

- Allocate farm receipts or expenditures to various enterprises when entering data in financial records
- Enter as overhead enterprise farm receipts or expenditures that cannot be directly attributed to an enterprise
- Be sure to allocate physical data to appropriate enterprise

  EXAMPLES: Bushels, pounds, tons, head, acres

- Allocate capital asset sales or purchases attributable to an enterprise
- Do not allocate inflow or outflow from loans

  EXAMPLES: Money borrowed, principal paid

- Do not allocate non-farm receipts or expenses
- Allocate non-cash expenses at end of accounting period

  EXAMPLES: Depreciation, operator labor, unpaid family labor, opportunity costs, beginning and ending inventory

- Allocate internal transfers as they occur

  EXAMPLE: Wheat pasture for stockers, Credit wheat enterprise for wheat pasture rent; debit stocker enterprise for wheat pasture rent or forage.

OBJECTIVE 5

Select from a list guidelines for allocating entries to overhead enterprise. (Assignment Sheets 2 and 3)

NOTE: To analyze each enterprise, the class member should allocate among the farm business enterprises farm receipts and expenditures recorded in the overhead enterprise. No method is available that guarantees correct allocation of overhead entries.

- Allocate among enterprises in proportion to the income contributed by each enterprise to the total farm business

  EXAMPLE: If wheat, swine, and cattle make up 40, 50, and 10 percent respectively of gross farm income, then divide overhead entries in that proportion.

- Allocate building expenses according to the total space occupied by an enterprise
- Allocate crop expenses according to proportion of acres to total acres

  EXAMPLE: If total crop acres equal 500 acres and harvested wheat acres total 300 acres, allocate 60 percent of expenses to wheat.

  NOTE: The class member should also consider whether land is all of the same quality, whether land is interchangeable for different crops, and whether crops are dry land or irrigated.

OBJECTIVE 6 **State purposes for keeping supplemental records.**

- To supplement financial records

  NOTE: Complete records provide a basis for comparison of performance levels or standards over time between enterprises and between farms. Supplemental records are not substitutes for financial records.

- To recording yields, production, and physical performance of an enterprise

- To recording different production practices and weather conditions

- To recording materials and resources used by the various enterprises

OBJECTIVE 7 **Match types of supplemental records to their appropriate uses.**

- **Home-used products**—Used for income tax reporting purposes and for balancing other supplemental records

  NOTE: If products used in the home are not considered, then production expenses may be overstated and returns understated.

- **Breeding**—Used for birth and weaning records and for planning livestock operations

- **Mortality**—Used for keeping track of livestock deaths and causes of deaths

- **Livestock feeding**—Used for recording feed consumption for livestock enterprises

  NOTE: Livestock feed records are among the most important statistical records if livestock production efficiency is to be measured. Feed costs account for 50 percent to 80 percent of the total cost of producing meat and other livestock products.

- **Crop and feed balance**—Used to calculate total quantities of feed fed

- **Livestock production summary**—Used to summarize numbers, weights, and values of livestock for a year

- **Crop records**—Used for keeping crop information by field or farm

  NOTE: Yield records are not very meaningful unless data surrounding particular yield levels are recorded.

  EXAMPLES: Previous crops, varieties, fertilizer rates, pesticides, peculiar weather, insects, disease, timing of rain

- **Crop production summary**—Used to pull together yields for each crop, values, and total acres involved so that total production can be calculated

- **Labor**—Used to summarize operator, family, and hired labor hours used by each enterprise

ASSIGNMENT SHEET 1	ENTERPRISE ACCOUNTING AND SUPPLEMENTAL RECORDS	IV

NAME _____ SCORE _____

OBJECTIVE 8

Determine what farm business enterprises will be used for enterprise records and analysis.

INTRODUCTION

There are many different ways of breaking down a farm business operation for enterprise records and analysis. The class member must make a decision on how this will be done in order to keep enterprise records correctly. After establishing the enterprise breakdown, the class member will be able to develop a system of recording livestock, crop, and forage data on a monthly basis that can be summarized at the end of the year for analysis purposes.

PART I

DIRECTIONS

List the enterprises in your farming or ranching operation.

EXAMPLES: Cow/calf, stockers, swine fattening, wheat, alfalfa hay, cotton

_____

_____

_____

_____

_____

_____

_____

_____

PART II

DIRECTIONS

Determine the enterprises in your farm business operation that will be used for enterprise records and analysis.

_____

_____

_____

_____

_____

_____

_____

_____

_____

ASSIGNMENT SHEET 2	ENTERPRISE ACCOUNTING AND SUPPLEMENTAL RECORDS	IV

NAME _____ SCORE _____

OBJECTIVE 9

Post on the proper enterprise record monthly transactions for farm receipts and expenditures.

INTRODUCTION

Most farmers will want to divide their farm business operation into major enterprises and keep track of the receipts, expenditures, and yields for each enterprise. However, some class members will separate their operation into a more detailed enterprise breakdown. More enterprises and more detailed enterprise subdivisions mean more work and record keeping, but the effort should result in a thorough, detailed enterprise analysis at year's end.

PART I

DIRECTIONS

Post on the proper enterprise record monthly transactions for farm receipts. Write your answers on the forms provided by your instructor.

NOTE: Use the first column for the overhead enterprise. Column number (COL. NO.) refers to the column number on the farm receipts form in the *Oklahoma Young Farmers Record Book.*

FORM 1.1 PAGE MONTH June 19____ FARM RECEIPTS

LINE	Date	TOTAL RECEIPTS $	TOTAL RECEIPTS ¢	DETAILED DESCRIPTION	AMOUNT: Pounds, Bushels, Tons, etc.	CROP SALES KIND: write in below — Wheat $	Wheat ¢	Alfalfa $	Alfalfa ¢	$	¢	$	¢	LINE
				Subtotals brought from preceding page										
1	1	3500	00	Clinton Coop @ 3.50	1000 bu.	3500	00							1
2	3	742	95	Patronage Refund										2
3	15	960	00	Alfalfa Hay @ 80.00	12 tons			960	00					3
4														4
5														5
6														6
7														7
8														8
9														9
10														10
11														11
12														12
13														13
14														14
15														15
16														16
17														17
18														18
19														19
20														20
21														21
22														22
23														23
				Subtotals to next page or totals to summary page										
						1		2		3		4		

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IV—204

FORM 1.6 PAGE MONTH 19 DISTRIBUTION OF ENTERPRISE RECEIPTS

LINE	Overhead				Wheat				Alfalfa				LINE
	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	
	Subtotals brought from preceding page												
1					1000 bu. @ 3.50	1	3 500	00					1
2	Patronage Refund	7	742	95									2
3									12 tons @ 80.00	2	960	00	3
4													4
5													5
6													6
7													7
8													8
9													9
10													10
11													11
12													12
13													13
14													14
15													15
16													16
17													17
18													18
19													19
20													20
21													21
22													22
23													23
	Subtotals to next page or monthly total												

FBRFS
IV—205

FORM 1.1 PAGE MONTH July 19____ FARM RECEIPTS

LINE	Date	TOTAL RECEIPTS $	¢	DETAILED DESCRIPTION	AMOUNT: Pounds, Bushels, Tons, etc.	CROP SALES KIND: write in below: Wheat $	¢	$	¢	$	¢	$	¢	LINE
				Subtotals brought from preceding page										
1	8	35,000	00	Clinton Coop - wheat 10000 bu @ 3.50	10000 bu.	35,000	00							1
2	15	1,000	00	Wheat Straw - 1000 baln @ 1.00	1,000 baln	1,000	00							2
3	19	550	00	Cull Dairy Cow - 1 hd.										3
4	[illegible]	14385	00	Milk Sales 10130 cwt @ [illegible]	[illegible]									4
5	25	7,500	00	Custom Work 500 ac. @ 15.00										5
6	30	1,000	00	10 Mkt. Hogs @ 100 ea. (railed)										6
7														7
8														8
9														9
10														10
11														11
12														12
13														13
14														14
15														15
16														16
17														17
18														18
19														19
20														20
21														21
22														22
23														23
				Subtotals to next page or totals to summary page										
						1		2		3		4		

FORM 1.6 PAGE MONTH 19____ DISTRIBUTION OF ENTERPRISE RECEIPTS

LINE	Overhead				Wheat				Dairy Cows				LINE
	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	
	Subtotals brought from preceding page												
1													1
2													2
3													3
4													4
5													5
6													6
7													7
8													8
9													9
10													10
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14													14
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16													16
17													17
18													18
19													19
20													20
21													21
22													22
23													23
	Subtotals to next page or monthly total												

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PART II

DIRECTIONS

Post on the proper enterprise record monthly transactions for farm expenditures. Write your answers on the forms provided on the following pages.

NOTE: Use the first column for the overhead enterprise. Refer to the *Oklahoma Young Farmer Record Book* for the appropriate column numbers.

FORM 2.1 PAGE MONTH July FARM EXPENDITURES

LINE	DATE	TOTAL COST $	¢	DETAILED DESCRIPTION	Check No	BREEDING FEES $	$	¢	FERTILIZER AND LIME $	¢	LINE
				Balances brought from preceding page							
1	2	725	00	John Crow - Labor (Dairy)							1
2	5	230	00	Atwell's - Supplies							2
3	8	65	00	Telephone (Farm Store)							3
4	8	230	00	Electricity (Farm Store)							4
5	10	220	00	Insurance (Farm Store)							5
6	16	500	00	Fuel (1/3 wheat)							6
7	17	300	00	John Crow - Labor (Dairy)							7
8	19	170	00	Vet Medicine (Dairy)							8
9	22	1500	00	Custom Mowing (Alf.)							9
10	22	7,925	00	Interest - Land Note							10
11	23	7,100	00	Feed (Dairy)		365	7,100	00			11
12	23	925	00	Repairs (1/3 wheat)							12
13	31	15000	00	Principal - Land Note							13
14	31	1,250	00	Family Living							14
15											15
16											16
17											17
18											18
19											19
20											20
21											21
22											22
23											23
				Balances to next page or totals to summary							
						27	28		29		

FORM 2.2 PAGE MONTH 19___ FARM EXPENDITURES

LINE	FREIGHT AND TRUCKING $	¢	GASOLINE, FUEL AND OIL $	¢	LABOR HIRED $	¢	MACHINE HIRE $	¢	MORTGAGE INTEREST $	¢
1										
2					325	00				
3										
4										
5										
6										
7					300	00				
8										
9										
10										
11									7925	00
12										
13										
14										
15										
16										
17										
18										
19										
20										
21										
22										
23										
	31		32		33		34		35	

FORM 2.3 PAGE MONTH FARM EXPENDITURES

LINE	OTHER FARM INTEREST $	¢	RENT $	¢	REPAIRS $	¢	TORAGE $	¢	SUPPLIES $	¢
1										
2										
3										
4										
5										
6										
7										
8										
9										
10										
11										
12					925	00				
13										
14										
15										
16										
17										
18										
19										
20										
21										
22										
23										
	36		37		38		39		41	

FORM 2.6 PAGE MONTH July 19____ DISTRIBUTION OF ENTERPRISE EXPENDITURES

LINE	Overhead				Wheat				Dairy Cows				LINE
	ITEM DESCRIPTION QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	ITEM DESCRIPTION QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	ITEM DESCRIPTION QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	
	Subtotals brought from preceding page												
1													1
2													2
3													3
4													4
5													5
6													6
7													7
8													8
9													9
10													10
11													11
12													12
13													13
14													14
15													15
16													16
17													17
18													18
19													19
20													20
21													21
22													22
23													23
	Subtotals to next page or monthly total												

FBIRFS
IV—210

NAME _____ SCORE _____

OBJECTIVE 10

Complete an enterprise cash flow summary.

INTRODUCTION

One of the more difficult tasks in compiling information for a detailed enterprise analysis is obtaining the total dollars allocated on the enterprise allocation forms. Most class members allocate their income and expenses to the proper enterprise each month. It becomes very important at the end of the year to summarize the monthly figures and to calculate year-end totals. These totals are useful in completing whole farm and detailed enterprise analyses. Also, by using an enterprise cash flow summary form, a class member may analyze the monthly cash flow throughout the year.

PART I

RECEIPTS

Using the information provided on the Enterprise Receipts, Forms 1.6 on the following page, complete the enterprise cash flow summary on the forms provided by your instructor.

NOTE: When transferring numbers from the enterprise allocation form, be sure to add all numbers from the same column number (COL. NO.) and to transfer the total to the enterprise cash flow summary.

FORM 1.6 PAGE MONTH Nov. 19___ DISTRIBUTION OF ENTERPRISE RECEIPTS

LINE	ITEM DESCRIPTION, QUANTITY, ETC. (Dairy Cows)	COL. NO.	AMOUNT $	AMOUNT ¢	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	AMOUNT ¢	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	AMOUNT ¢	LINE
	Subtotals brought from preceding page												
1	Cull Cow	17	535	00									1
2	4-Bull Calves	13	600	00									2
3	11-Heifer Calves	13	2200	00									3
4	Milk-1013 cwt @ 14.25	9	14,385	00									4
5													5
6													6
7													7
8													8
9													9
10													10
11													11
12													12
13													13
14													14
15													15
16													16
17													17
18													18
19													19
20													20
21													21
22													22
23													23
	Subtotals to next page or monthly total		17,720	00									

FBRFS
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FORM 1.6 PAGE MONTH Dec. 19___ DISTRIBUTION OF ENTERPRISE RECEIPTS

LINE	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	AMOUNT ¢	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	AMOUNT ¢	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	AMOUNT ¢	LINE
	Dairy Cows												
	Subtotals brought from preceding page												
1	Milk 1065 cwt @ 14.25	9	15,123	00									1
2													2
3													3
4													4
5													5
6													6
7													7
8													8
9													9
10													10
11													11
12													12
13													13
14													14
15													15
16													16
17													17
18													18
19													19
20													20
21													21
22													22
23													23
	Subtotals to next page or monthly total		15,123	00									

FBRFS
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PART II

EXPENDITURES

DIRECTIONS

Using the information provided on the enterprise allocation forms for expenditures Form 2.6 on the following pages, complete the enterprise cash flow summary on the forms on the following pages.

NOTE: When transferring numbers from the enterprise allocation form, be sure to add all numbers from the same column number (COL. NO.) and to transfer the total to the enterprise cash flow summary.

FORM 2.6 PAGE MONTH Nov. 19 DISTRIBUTION OF ENTERPRISE EXPENDITURES

Dairy Cows

LINE	ITEM DESCRIPTION QUANTITY, ETC.	COL. NO.	AMOUNT $	AMOUNT ¢	ITEM DESCRIPTION QUANTITY, ETC.	COL NO	AMOUNT $	AMOUNT ¢	ITEM DESCRIPTION QUANTITY, ETC.	COL NO	AMOUNT $	AMOUNT ¢	LINE
	Subtotals brought from preceding page												
1	16% Dairy Ration	28	3800	00									1
2	John Doe, D.V.M.	44	150	00									2
3	Atwolf's	41	125	00									3
4	Utilities	43	295	00									4
5	Hauling	30	600	00									5
6	Hay	28	2800	00									6
7	Milk Replacer	28	10	00									7
8	Calf Starter	28	50	00									8
9	Salt & Mineral	28	120	00									9
10	Breeding Fees	25	180	00									10
11	Vet Supplies	44	20	00									11
12	Westerner Auto	41	80	00									12
13	Jo's Feed & Seed	41	15	00									13
14	DHIA	45	90	00									14
15	S. Perky	33	300	00									15
16	Body Shop Pickup	38	860	00									16
17	VISA - Fuel	31	125	00									17
18	Insurance	32	100	00									18
19	Loafing Shed Materials	51	6,000	00									19
20	Lumber	51	2,200	00									20
21	Sheet iron	51	1,800	00									21
22	Insurance	32	120	00									22
23	S. Perky	33	375	00									23
	Subtotals to next page or monthly total		20,215	00									

FBRFS
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FORM 2.6 PAGE MONTH Dec. 19 DISTRIBUTION OF ENTERPRISE EXPENDITURES

Dairy Cows

LINE	ITEM DESCRIPTION QUANTITY, ETC	COL NO	AMOUNT $	AMOUNT ¢	ITEM DESCRIPTION QUANTITY, ETC	COL NO	AMOUNT $	AMOUNT ¢	ITEM DESCRIPTION QUANTITY, ETC	COL NO	AMOUNT $	AMOUNT ¢	LINE
	Subtotals brought from preceding page												
1	Breeding Fees	25	90	00									1
2	John Doe, D.V.M	44	150	00									2
3	Hauling	30	625	00									3
4	16 % Dairy Ration	28	4,000	00									4
5	Hay	28	1,500	00									5
6	DHIA	45	95	00									6
7	Vet Medicine	44	10	00									7
8	Hay	28	1,400	00									8
9	Farm & Garden	41	175	00									9
10	Breeding Fees	25	90	00									10
11	Milk Replacer	28	25	00									11
12	Salt & Mineral	28	120	00									12
13	Utilities	43	295	00									13
14	Calf Starter	28	50	00									14
15	JS Dairy Supplies	41	45	00									15
16	S. Perky	33	300	00									16
17	Station - Fuel Bill	31	1,000	00									17
18	County Treasurer		410	00									18
19	Insurance	32	100	00									19
20	Insurance	32	120	00									20
21	New Pickup		7,800	00									21
22	VISA - Fuel	31	150	00									22
23	S. Perky	33	375	00									23
	Subtotals to next page or monthly total		19,025	00									

PART III

DIRECTIONS

Complete an enterprise cash flow summary for an enterprise on your farm.

ASSIGNMENT SHEET 4	ENTERPRISE ACCOUNTING AND SUPPLEMENTAL RECORDS	IV

NAME _____ SCORE _____

OBJECTIVE 11

Complete a crop and feed balance record form.

INTRODUCTION

A crop and feed balance record form is used to calculate total quantities of feed fed and crops grown. It combines information from the receipts and expenditures accounts, livestock feeding records, and crop production records.

DIRECTIONS

Use the information below to complete the Crop And Feed Balance Record Form, Form S-6, which will be provided by your instructor.

WHEAT CROP

- Beginning inventory included 5,000 bushels of wheat valued at $3.50 per bushel for a total value of $17,500.
- 1,000 acres of wheat were harvested during the year with an average yield of 32 bushels per acre; value of the wheat at harvest time was $3.60 per bushel for a total value of $115,200.
- 30,000 bushels of wheat were sold during the year for total wheat sales of $112,500.
- 1,000 bushels were used as seed wheat; value of the seed wheat was $4,000.
- Wastage was estimated at 150 bushels for a total value of $555.
- Closing inventory included 5,580 bushels of wheat valued at $3.70 per bushel for a total value of $21,645.
- No wheat was used for feed.

DAIRY RATION

- 40 tons of dairy ration valued at $6,400 were on hand at the beginning of the year.
- 500 tons of dairy ration were purchased during the year; total expenses were $80,000.

- Estimated that 1,000 pounds of dairy ration were wasted at a value of $80.
- 509.5 tons of dairy ration were fed to the dairy herd during the year; total value of feed fed was $81,520.
- 30 tons of dairy ration valued at $4,800 were on hand at the end of year.

ASSIGNMENT SHEET 5	ENTERPRISE ACCOUNTING AND SUPPLEMENTAL RECORDS	IV

NAME _____ SCORE _____

OBJECTIVE 12

Complete a livestock production summary.

INTRODUCTION

Livestock production summary record of growth can be kept on individual animals, lots or pens, group purchase, or whole herds. These records may cover periods of specific intervals or an inventory period of one year. Both physical and financial information are necessary to complete the records.

DIRECTIONS

Use the information below to complete the Livestock Production Summary Record Form, Form S-7, which will be provided by your instructor.

STOCKERS

- Opening inventory included 300 stocker cattle, weighing an average of 450 pounds per head for a total weight of 135,000 pounds. Value of the cattle was $101,250.
- Closing inventory included 344 stocker cattle, weighing an average of 450 pounds for a total weight of 154,800 pounds. Value of the cattle was $123,840
- Three hundred and fifty stockers weighing a total of 140,000 pounds were purchased for resale during the year. Purchase cost was $112,000.
- Sales during the year totaled $146,615 for 295 head, weighing 209,450 pounds.
- Nine stockers weighing a total of 4,050 pounds died during the year.
- Two head weighing 1,400 pounds and valued at $980 were consumed in the home.
- There were no births in the stocker enterprise.

BEEF COWS

- Opening inventory included 85 head, weighing 61,000 pounds, and valued at $32,000.
- Forty-one calves were born during the year.

- Five replacement heifers weighing 4,000 pounds were purchased for $4,000 during the year.
- Fifty-four head weighing 37,500 pounds were sold for $22,800 during the year.
- Seven head weighing 1,950 pounds died during the year.
- Closing inventory included 70 head, weighing 42,000 pounds, and valued at $22,750.

ASSIGNMENT SHEET 6	ENTERPRISE ACCOUNTING AND SUPPLEMENTAL RECORDS	IV

NAME _____ SCORE _____

OBJECTIVE 13

Complete a crop production summary.

INTRODUCTION

A crop production summary facilitates computation of total value of crops produced, value of feed crops raised, and other data that will be helpful later in analyzing the year's operation. The summary is needed whether or not individual field records are kept. It is possible to see at a glance from this record what use was made of the acreage of the entire farm.

DIRECTIONS

Use the information below to complete the Crop Records Form, Form S-8, which will be provided by your instructor.

Farmer Jones farms and ranches 660 acres of owned land and 420 acres of rented land. Major crop enterprises in the farming operation are cotton, wheat, and alfalfa hay. Jones also has beef cattle and winter stocker cattle. Average prices received for the crop enterprises during the previous year included cotton, $0.52 per pound; wheat, $3.50 per bushel; and alfalfa hay, $80 per ton.

Production from the Jones-owned land included 80 acres of cotton with an average yield of 400 pounds per acre; 120 acres of wheat with an average yield of 32 bushels per acre; and 20 acres of alfalfa hay with an average yield of 4.5 tons per acre. Jones also diverted 120 acres to summer fallow. Jones owns 250 acres of native unimproved pasture for which a forage production value of $10 per acre has been assigned. Also included is the owned land of 10 acres for the farmstead; 40 acres of wasteland, gullies, fence lines; and 20 acres of blackjack trees with no value assigned.

Production from land Jones is renting included 60 acres of cotton with an average yield of 500 pounds per acre, and 360 acres of wheat with an average yield of 30 bushels per acre. Landlord's share was 33 percent of the cotton production and 25 percent of the wheat production.

ASSIGNMENT SHEET 7	ENTERPRISE ACCOUNTING AND SUPPLEMENTAL RECORDS	IV

NAME _____ SCORE _____

OBJECTIVE 14

Complete a monthly labor summary.

INTRODUCTION

It is useful to keep a record of the labor used in one or more enterprises when there is some special reason to study efficiency or seasonal requirements; when labor allocation is important in the selection of enterprises; or when it must be determined whether a particular enterprise with a high labor requirement is profitable. Labor becomes a particularly critical item at certain times of the year. As enterprises compete for labor use, their value measured in terms of net farm income may be many times greater than market price. In this respect, farm labor records may be useful at intervals in the history of the farm even though they may not be kept on a continuing basis by most class members.

DIRECTIONS

Using the information below, complete the monthly labor summary records form on the following page.

Farmer Smith and family have kept monthly labor records for the past year. Each month Farmer Smith worked 20 hours and other family members worked 40 hours doing farm chores. The Smiths' major enterprises consisted of a 100-head beef cow herd, 480 acres of wheat, and 240 acres of cotton. On the form provided, Farmer Smith compiled the number of operator, family, and hired labor hours worked each month, and allocated those hours to each major enterprises.

FORM S-12

MONTHLY LABOR SUMMARY

These tables provide for a monthly labor summary for different enterprises. Monthly totals can be calculated from daily labor records (which are not a part of this book) or estimated.

MONTH	ENTERPRISE											
	Beef Cows				Wheat				Cotton			
	OPER.	FAMILY	HIRED	TOTAL	OPER.	FAMILY	HIRED	TOTAL	OPER.	FAMILY	HIRED	TOTAL
JANUARY	124				39				43			
FEBRUARY	175				50	45	55					
MARCH	184											
APRIL	75											
MAY	79								141	30		
JUNE	72				188	150	723			70		
JULY	72				100	150				70		
AUGUST	58				160	200						
SEPTEMBER	70				150	57						
OCTOBER	75											
NOVEMBER	102								147	50	60	
DECEMBER	118								51			
TOTAL												

The enterprise totals plus farm overhead should correspond to the total labor supplied on the farm.
Overhead jobs include such things as machinery and building repair, farmstead cleanup, purchasing of supplies, banding, etc.

MONTH	TOTAL ENTERPRISE, FARM OVERHEAD, AND TOTAL FARM LABOR											
	TOTAL ENTERPRISE				FARM OVERHEAD				TOTAL FARM (enterprise plus overhead)			
	OPER.	FAMILY	HIRED	TOTAL	OPER.	FAMILY	HIRED	TOTAL	OPER.	FAMILY	HIRED	TOTAL
JANUARY												
FEBRUARY												
MARCH												
APRIL												
MAY												
JUNE												
JULY												
AUGUST												
SEPTEMBER												
OCTOBER												
NOVEMBER												
DECEMBER												
TOTAL												

ASSIGNMENT SHEET 1

Answers should include a list of all enterprises owned by individual class members. Answers will differ among class members.

Assignment Sheet 2

PART I—See following page

FORM 1.6 PAGE MONTH July 19____ DISTRIBUTION OF ENTERPRISE RECEIPTS

LINE	Overhead				Wheat				Dairy Cows				LINE
	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	ITEM DESCRIPTION, QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	
	subtotals brought from preceeding page												
1					Wheat 10,000 bu. @ 3.50	1	35,000	00					1
2					Straw Hay 1,000 bales @ 1.00	1	1,000	00					2
3									1 hd. cull cow	17	535	00	3
4									Milk sales 1013 cwt. @ 14.20	9	14,385	00	4
5	Custom Work 500 Ac. @ 15.00	6	7,500	00									5
6	10 Mkt. Hogs @ 100.00 ea.	13	1,000	00									6
7													7
8													8
9													9
10													10
11													11
12													12
13													13
14													14
15													15
16													16
17													17
18													18
19													19
20													20
21													21
22													22
23													23
	subtotals to next page or monthly total												

FORM 2.6 PAGE MONTH July 19____ DISTRIBUTION OF ENTERPRISE EXPENDITURES

LINE	Overhead				Wheat				Dairy Cows				LINE
	ITEM DESCRIPTION QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	ITEM DESCRIPTION QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	ITEM DESCRIPTION QUANTITY, ETC.	COL. NO.	AMOUNT $	¢	
	subtotals brought from preceeding page												
1									Hired Labor	25	325	00	1
2	Supplies	32	230	00									2
3	Telephone	40	65	00									3
4	Electricity	40	230	00									4
5	Insurance	39	220	00									5
6	Fuel	36	250	00	Fuel	36	250	00					6
7									Hired Labor	25	300	00	7
8									Vet Medicine	35	170	00	8
9					Custom Plowing	31	1,500	00					9
10	Interest - Land Note	27	7,925	00									10
11									Feed - 36 tons	28	7,100	00	11
12	Repairs	26	462	50	Repairs	26	462	50					12
13													13
14													14
15													15
16													16
17													17
18													18
19													19
20													20
21													21
22													22
23													23
	subtotals to next page or monthly total												

PART II—See thefollowing

ENTERPRISE CASH FLOW SUMMARY

ENTERPRISE: Dairy Cows RECEIPTS	LINE	JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEP.	OCT.	NOV.	DEC.	ALLOCATE FROM O.H.	YEAR-END TOTAL
Crop Sales	1														
	2														
	3														
	4														
Government Payments	5														
Custom Work	6														
Dividends, Refunds, Resales	7														
Cash Rent, Other	8														
Livestock Products (add columns 9-10)	10	15,200.00	15,000.00	15,500.00	15,500.00	15,400.00	15,100.00	15,000.00	15,000.00	14,500.00	15,000.00	14,385.00	15,123.00		180,708.00
Misc. Income (add columns 11-12)	12														
Non-Breeding Livestock Raised (add columns 13-14)	14			2,400.00						3,880.00		2,800.00			9,080.00
OPERATING SALES TOTAL (add lines 1-14)	A	15,200.00	15,000.00	17,900.00	15,500.00	15,400.00	15,100.00	15,000.00	15,000.00	18,380.00	15,000.00	17,185.00	15,123.00		189,788.00
Livestock Purchased for Resale Sales Total (add cols. 15-16)	16														
Breeding Livestock Sales (add columns 17-18)	18		850.00	6,200.00						7,330.00		535.00			14,915.00
Machinery, Equipment, Building Sales	19														
CAPITAL SALES TOTAL (add lines 18-19)	B	-0-	850.00	6,200.00	-0-	-0-	-0-	-0-	-0-	7,330.00	-0-	535.00	-0-		14,915.00
TOTAL FARM RECEIPTS (add lines A plus 16 plus B)	C	15,200.00	15,850.00	24,100.00	15,500.00	15,400.00	15,100.00	15,000.00	15,000.00	25,710.00	15,000.00	17,720.00	15,123.00		204,703.00

ENTERPRISE CASH FLOW SUMMARY

ENTERPRISE: Dairy Cows EXPENDITURES	LINE	JAN.	FEB.	MAR.	APR.	MAY	JUNE	JULY	AUG.	SEP.	OCT.	NOV.	DEC.	ALLOCATE FROM O.H.	YEAR-END TOTAL
Hired Labor	25	625	625	625	625	625	625	625		675	675	675			7,700
Repairs	26	100	125	50	750	100	750	975		125	875	860			3,400
Interest	27			7,500	600					6,000					14,100
Feed	28	7,000	7,150	7,200	7,100	7,200	7,100	7,100		7,000	7,250	6,780			84,925
Seed, Plants, Other	29														
Fertilizer, Lime, Chemicals	30														
Machine Hire	31	650	600	700	700	700	650	600		600	650	600	625		7,625
Supplies	32	230	220	230	220	220	230	230		230	220	220	220		2,680
Breeding Fees	33	180	180	180	180	180	180	180		180	180	180	180		2,160
Miscellaneous Expenses	34	90	90	85	85	95	90	90		90	90	90	85		1,095
Vet. Medicine	35	170	160	160	170	160	160	170		160	170	170	160		1,970
Fuel and Oil	36	150	125	125	150	1,100	125	100		125	100	125	150		3,500
Storage	37														
Taxes	38	278											410		688
Insurance	39	200	200	200	200	200	200	220	220	220	220	220	220		2,520
Utilities	40	290	290	290	290	290	290	295	295	295	295	295	295		3,510
Cash Rent	41										3,000				3,000
Freight, Trucking	42														
Conservation Expense	43														
OPERATING EXPEND. TOTAL (add lines 25-43)	E	9,963	9,765	17,345	11,000	10,870	9,600	10,585	9,520	15,700	13,885	10,215	11,205		138,873
Livestock Purcd. for Resale Total (add cols. 44-45)	45	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-				
Breeding Stock Purchases	46				6,000	2,400				3,400					11,800
	47														
Machinery and Equipment Purchases	48					2,050							7,800		9,850
Land and Building Improvement	49											10,000			10,000
CAPITAL EXPENSE TOTAL (add lines 46-49)	F	-0-	-0-	-0-	6,000	4,450	-0-	-0-	-0-	3,400	-0-	10,000	7,800		31,650
TOTAL FARM EXPENSES (add lines E plus 45 plus F)	G	9,963	9,765	17,345	17,000	15,320	9,600	10,585	9,520	19,100	13,885	20,215	19,005		170,523

PART II—See the following

PART III—Answer should include the proper forms and figures for the class members' farm business.

Assignment Sheet 4

See following page

FORM S-6

CROP AND FEED BALANCE

This table assumes the accounting of the operator's share only. Hence the feed purchased, raised, sold, etc. refers to that belonging to the operator. Under livestock share arrangements it may be desirable to alter these measures to include the landlord's share.

		UNIT OF MEASURE	CROP OR FEED: Wheat QTY. (bu.)	Wheat AMOUNT	Dairy Ration QTY (Ton)	Dairy Ration AMOUNT	QTY.	AMOUNT	QTY.	AMOUNT
1	SOURCE OF FEED	Opening Inventory	5,000	$ 17,500 00	40	$ 6,400 00		$		$
2		Purchased			500	80,000 00				
3										
4		Crops Raised	32,000	115,200 00						
5		Total In	37,000	132,700 00	540	86,400 00				
6	FEED ACCOUNTED FOR	Closing Inventory	5,850	21,645 00	30	4,800 00				
7		Sales	30,000	112,500 00						
8										
9		Seeded	1,000	4,000 00						
10		Wastage, Spoilage	150	555 00	.5	80 00				
11		Total Out	37,000	138,700 00	30.5	4,880 00				
12	TOTAL FEED FED* L5-L11		-0-	$ (6,000 00)	509.5	$ 81,520 00		$		$
13	FEED CONSUMED BY LIVESTOCK FROM FEED RECORDS	Beef								
14										
15										
16		Swine								
17										
18										
19		Dairy			509.5	81,520 00				
20										
21		Non-Prod. Lvstk.								
22										
23	TOTAL FEED RECORDED**		-0-	$	509.5	$ 81,520 00		$		$
24	ERROR (DIFFERENCE) L12-23		-0-	$	-0-	$		$		$
25	TOTAL FEED FED AS DETERMINED FROM ALL SOURCES***			$		$		$		$

TOTAL WEIGHT OF ALL FEEDS FED _____ LBS.

TOTAL VALUE OF ALL FEEDS FED $ _____

*As tabulated by difference from inventories, production, purchases and sales.
**As recorded from feed records.
***Final feed allocation as determined from all sources.
****Convert all feeds to pounds and roughages to a 90% dry weight (hay equivalent) basis.

FORM S-7

LIVESTOCK PRODUCTION SUMMARY

This table summarizes the number, weight and value increases or productions for the year. The number in L11 should be zero since the TOTAL number IN (L4) should balance OUT (L9). Hence, L11 will indicate accounting errors in the number of livestock.

	DESCRIPTION	TYPE: Stockers				TYPE: Beef Cows				TYPE:			
		NO.	WEIGHT	AMOUNT		NO.	WEIGHT	AMOUNT		NO.	WEIGHT	AMOUNT	
1	Opening Inventory	300	135,000	$101,250	00	85	61,000	$ 32,000	00			$	
2	Purchases	350	140,000	112,000	00	5	4,000	4,000	00				
3	Births		—	—		41	—	—			—	—	
4	TOTAL IN	650	275,000	$213,250	00	131	65,000	$ 36,000	00			$	
5	Closing Inventory	344	154,800	123,840	00	70	42,000	22,750	00				
6	Sales	295	209,450	146,615	00	54	37,500	22,800	00				
7	Home Consumed Products	2	1,400	980	00	-0-	-0-	-0-					
8	Deaths	9	4,050	—		7	1,950	—				—	
9	TOTAL OUT	650	369,700	$271,435	00	131	81,450	$ 45,550	00			$	
10	INVENTORY CHANGE (L5-1)	44	19,800	$ 22,590	00	<15>	<19,000>	$ <9,250	00>			$	
11	NET INCREASE (L9-4)	-0-	94,700	$ 58,185	00	-0-	16,450	$ 9,550	00			$	

TOTAL LIVESTOCK INCREASE $

This table summarizes the number, weight and value increases or productions for the year. The number in L11 should be zero since the TOTAL number IN (L4) should balance OUT (L9). Hence, L11 will indicate accounting errors in the number of livestock.

	DESCRIPTION	TYPE:				TYPE:				TYPE:			
		NO.	WEIGHT	AMOUNT		NO.	WEIGHT	AMOUNT		NO.	WEIGHT	AMOUNT	
1	Opening Inventory			$				$				$	
2	Purchases												
3	Births		—	—			—	—			—	—	
4	TOTAL IN			$				$				$	
5	Closing Inventory												
6	Sales												
7	Home Consumed Products												
8	Deaths			—				—				—	
9	TOTAL OUT			$				$				$	
10	INVENTORY CHANGE (L5-1)			$				$				$	
11	NET INCREASE (L9-4)			$				$				$	

TOTAL LIVESTOCK INCREASE $

FORM S-9

CROP PRODUCTION SUMMARY

	CROP	UNIT	PRICE	OWNED LAND FIELD	OWNED LAND *ACRES	OWNED LAND YIELD	OWNED LAND PRODUCTION	OWNED LAND AMOUNT		RENTED LAND FIELD	RENTED LAND ACRES
1	Cash Crops Cotton	LB.	.52		80	400#	32,000#	$16,640	00		60
2											
3											
4											
8	Small Grains Wheat	Bu.	3.50		120	32 bu.	3,840	13,440	00		360
9											
10											
11											
15	Hay* Alfalfa	Ton	80.00		20	4.5 tons	90 tons	7,200	00		
16											
17											
18											
22	Diverted Acres				120			0	00		
23											
24											
25	Total Crop Acres				340						420
26	Rotated Pasture										
27											
28											
29	Total rotated acres (add 1 thru 28)				340						420
30											
31	Improved permanent pasture										
32	Native unimproved pasture				250			2,500	00		
33											
34	Woodland				20			0	00		
35	Waste, etc.				40						
36	Farmstead				10						
37	Total Farm (add 29 thru 36)				660			$39,780	00		420

*Report hay acres from multiple cuttings and double crop acres only once.

Assignment Sheet 6

See following pages

FORM S-10

CROP PRODUCTION SUMMARY (Continued)

	RENTED LAND (Continued)												WHOLE FARM				
	YIELD	PRODUCTION	AMOUNT		LANDLORD SHARE				OPERATOR SHARE				*ACRES	YIELD	PRODUCTION	AMOUNT	
					%	QTY.	AMOUNT		QTY.	AMOUNT							
1	500#	30,000#	$15,600	00	33%	10,000	$ 5,200	00	20,000	$ 10,400	00		140	444#	62,000#	$ 32,240	00
2																	
3																	
4																	
8	30	10,800 bu.	37,800	00	25%	2,700	9,450	00	8,100	28,350	00		480	30.5 bu.	14,640 bu	51,240	00
9																	
10																	
11																	
15													20	4.5 tons	90 tons	7,200	00
16																	
17																	
18																	
22													120			0	00
23																	
24																	
25													760				
26																	
27																	
28																	
29			53,400	00			14,650	00		38,750	00		760			90,680	00
30																	
31																	
32													250			2,500	00
33																	
34													20				
35													40				
36													10				
37			53,400	00			14,650	00		38,750	00		1,080			93,180	00

Assignment Sheet 7

See following page

FORM S-12

MONTHLY LABOR SUMMARY

These tables provide for a monthly labor summary for different enterprises. Monthly totals can be calculated from daily labor records (which are not a part of this book) or estimated.

MONTH	ENTERPRISE											
	Beef Cows				Wheat				Cotton			
	OPER.	FAMILY	HIRED	TOTAL	OPER.	FAMILY	HIRED	TOTAL	OPER.	FAMILY	HIRED	TOTAL
JANUARY	124			124	39			39	43			43
FEBRUARY	175			175	50	40	55	145				
MARCH	184			184								
APRIL	75			75								
MAY	79			79					141	30		171
JUNE	72			72	188	150	723	1,061		70		70
JULY	72			72	100	150		250		70		70
AUGUST	58			58	160	200		360				
SEPTEMBER	70			70	150	57		207				
OCTOBER	75			75								
NOVEMBER	102			102					147	50	60	257
DECEMBER	118			118					51			51
TOTAL	1,204			1,204	687	597	778	2,062	382	220	60	662

The enterprise totals plus farm overhead should correspond to the total labor supplied on the farm.
Overhead jobs include such things as machinery and building repair, farmstead cleanup, purchasing of supplies, banding, etc.

MONTH	TOTAL ENTERPRISE, FARM OVERHEAD, AND TOTAL FARM LABOR											
	TOTAL ENTERPRISE				FARM OVERHEAD				TOTAL FARM (enterprise plus overhead)			
	OPER.	FAMILY	HIRED	TOTAL	OPER.	FAMILY	HIRED	TOTAL	OPER.	FAMILY	HIRED	TOTAL
JANUARY	206			206	20	40		60	226	40		266
FEBRUARY	225	40	55	320	20	40		60	245	80	55	380
MARCH	184			184	20	40		60	204	40		244
APRIL	75			75	20	40		60	95	40		135
MAY	220	30		250	20	40		60	240	70		310
JUNE	260	220	723	1,203	20	40		60	280	260	723	1,263
JULY	172	220		392	20	40		60	192	260		452
AUGUST	218	200		418	20	40		60	238	240		478
SEPTEMBER	220	57		277	20	40		60	240	97		337
OCTOBER	75			75	20	40		60	95	40		135
NOVEMBER	249	50	60	359	20	40		60	269	90	60	419
DECEMBER	169			169	20	40		60	189	40		229
TOTAL	2,273	817	838	3,928	240	480		720	2,513	1,297	838	4,648

WRITTEN TEST	ENTERPRISE ACCOUNTING AND SUPPLEMENTAL RECORDS	IV

NAME _____ SCORE _____

OBJECTIVE 1

Match to their correct definitions terms associated with enterprise accounting and supplemental records. Write the correct letters in the blanks.

__ 1. Detailed recording of all income and expense items directly related to a specific enterprise	a. Production records
	b. Enterprise accounting
__ 2. Additional information to financial records that aids in providing a complete records system	c. Supplemental records
	d. Enterprise
__ 3. Information that normally details yield, production, or physical performance measures of an enterprise	e. Stock records
	f. Supplemental receipts
__ 4. Unit of economic organization in the farm business	

OBJECTIVE 2

State three purposes of enterprise accounting.

_____

_____

_____

OBJECTIVE 3

Match to their correct descriptions ways to classify enterprises for an enterprise record and analysis. Write the correct letters in the blanks.

__ 1. Enterprise that contributes large portion of income to the farm business	a. Minor enterprise
__ 2. Enterprise that contributes small portion of income to farm business	b. Major enterprise
__ 3. Income and expenses that cannot be directly attributed to an enterprise at the time incurred	c. Overhead enterprise
__ 4. Subdivision of a major enterprise	d. Detailed enterprise
	e. Supplemental enterprise
	f. Actual enterprise

OBJECTIVE 4

State five guidelines for allocating farm receipts and expenditures to various enterprises.

_____

_____

_____

_____

_____

OBJECTIVE 5

Select from the following list guidelines for allocating entries to overhead enterprise. Write an "X" in the blank before each correct answer.

__ 1. Allocate non-farm income and expenses according to use in an enterprise

__ 2. Allocate among enterprises in proportion to the income contributed by each enterprise to the total farm business

__ 3. Allocate building expenses according to the total space occupied by an enterprise

__ 4. Allocate inflow and outflow from loans attributable to an enterprise

__ 5. Allocate crop expenses according to proportion of acres to total acres

OBJECTIVE 6

State three purposes for keeping supplemental records.

_____

_____

_____

OBJECTIVE 7

Match types of supplemental records to their appropriate uses. Write the correct letters in the blanks.

__ 1. Used for income tax reporting purposes and for balancing other supplemental records	a. Crop records
__ 2. Used for birth and weaning records and for planning livestock operations	b. Mortality
__ 3. Used for keeping track of livestock deaths and causes of deaths	c. Livestock production summary
__ 4. Used for recording feed consumption for livestock enterprises	d. Labor
__ 5. Used to calculate total quantities of feed fed	e. Home-used products
	f. Crop and feed balance
	g. Breeding

_ 6. Used to summarize numbers, weights, and values of livestock for a year

_ 7. Used for keeping crop information by field or farm

_ 8. Used to pull together yields for each crop, values, and total acres involved so that total production can be calculated

_ 9. Used to summarize operator, family, and hired labor hours used by each enterprise

h. Livestock feeding

i. Crop production

j. Monthly income summary

k. Vet supplies

l. Seed

NOTICE: Test questions 8 through 14 list the assignment sheets. They are an important part of this test. If they have not been completed, check with your instructor.

OBJECTIVE 8 **Determine what farm business enterprises will be used for enterprise records and analysis.** SCORE ____

OBJECTIVE 9 **Post on the proper enterprise record monthly transactions for farm receipts and expenditures.** SCORE ____

OBJECTIVE 10 **Complete an enterprise cash flow summary.** SCORE ____

OBJECTIVE 11 **Complete a crop and feed balance record form.** SCORE ____

OBJECTIVE 12 **Complete a livestock production summary.** SCORE ____

OBJECTIVE 13 **Complete a crop production summary.** SCORE ____

OBJECTIVE 14 **Complete a monthly labor summary.** SCORE ____

ANSWERS TO TEST	ENTERPRISE ACCOUNTING AND SUPPLEMENTAL RECORDS	IV

OBJECTIVE 1

1. b
2. c
3. a
4. d

OBJECTIVE 2

- To pinpoint level of profitability and factors affecting profitability during accounting period
- To aid class member in decision making by using historical records to reveal levels of performance from year to year
- To determine management's performance through comparisons over a specific time period

OBJECTIVE 3

1. b
2. a
3. c
4. d

OBJECTIVE 4

Answer should include any five of the following

- Allocate farm receipts or expenditures to various enterprises when entering data in financial records
- Enter as overhead enterprise farm receipts or expenditures that cannot be directly attributed to an enterprise
- Be sure to allocate physical data to appropriate enterprise
- Allocate capital asset sales or purchases attributable to an enterprise
- Do not allocate inflow or outflow from loans
- Do not allocate non-farm receipts or expenses
- Allocate non-cash expenses at end of accounting period
- Allocate internal transfers as they occur

OBJECTIVE 5 2, 3, 5

OBJECTIVE 6 Answer should include any three of the following

- To supplement financial records
- To record yields, production, and physical performance of an enterprise
- To record different production practices and weather conditions
- To record materials and resources used by the various enterprises

OBJECTIVE 7

1. e	6. c
2. g	7. a
3. b	8. i
4. h	9. d
5. f	

OBJECTIVE 8 Refer to answers to Assignment Sheet 1.

OBJECTIVE 9 Refer to answers to Assignment Sheet 2.

OBJECTIVE 10 Refer to answers to Assignment Sheet 3.

OBJECTIVE 11 Refer to answers to Assignment Sheet 4.

OBJECTIVE 12 Refer to answers to Assignment Sheet 5.

OBJECTIVE 13 Refer to answers to Assignment Sheet 6.

OBJECTIVE 14 Refer to answers to Assignment Sheet 7.

OBJECTIVE SHEET	CASH-FLOW MANAGEMENT	V

UNIT OBJECTIVE

After completing this unit, the class member should be able to develop criteria for monitoring the cash inflows and outflows of the business using actual and projected cash flow. The class member will demonstrate these competencies by completing assignment sheets and written test with a minimum of 85 percent accuracy.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to

1. Match to their correct definitions terms associated with cash-flow management.
2. Select from a list reasons for proper financial management in a farm business operation.
3. State requirements of cash-flow management.
4. Select from a list benefits of cash-flow planning.
5. State four limitations of cash-flow projection.
6. State types of cash-flow plans.
7. Arrange in order steps in making a cash-flow projection.
8. Complete a cash-flow projection. (Assignment Sheet 1)
9. Complete a cash-flow projection and checklist for personal farm situation. (Assignment Sheet 2)

SUGGESTED ACTIVITIES	CASH-FLOW MANAGEMENT	V

PREPARATION

Obtain materials to supplement this unit.

- Make copies of forms to be used in the assignment sheets.

DELIVERY

Introduction

- Use Handout 1, "Management Tools for Financial Planning," to help explain that farm records and annual financial statements are historical records of past planning; whereas, cash-flow plans, enterprise budgets, and market outlook are records that help determine future planning.
- Have each class member complete a micro-computer cash-flow projection.
- Use the following outline to point out the increased emphasis on farm financial planning:

  — Higher costs for capital resources

  EXAMPLES: Machinery and equipment, land

  — Increased risk in farming and ranching

  EXAMPLES: High production costs, fluctuating interest rates, price and yield fluctuations

  — Increased family living costs

  EXAMPLES: Place in family life cycle, effects of inflation

  — Current loan-repayment problems

  EXAMPLES: Too much short-term debt

  — Increased demand for available farm loan funds

  EXAMPLES: Other businesses, money market funds

  — Increased amount of financial information needed by agriculture lenders

  EXAMPLES: Coordinated financial statements

- Ask class members if any of their lenders require a cash-flow plan.
- Use the following listing as an aid in discussing the purpose of financial analysis and planning:
  - — Provide information on financial position, profitability, and repayment capacity of farm business.
  - — Provide early warning of potential financial problems.
  - — Provide measures of financial position of farm business.
  - — Provide basis for sound farm investment and financing decisions.
  - — Improve communication with lender and increase credit capacity of farm business.

Objective 1

- Pointing out the importance of defining terms for common understanding. Terms may be tied to opening remarks about management tools for financial planning.

Objective 2

- Present reasons for proper financial management.
- Explain that keeping informed means "staying on top" of business developments on a daily basis.
- Emphasize that allowing a certain degree of flexibility in decisions allows for adjustments or change if problems should appear.
- Explain that the ability to develop risk management strategies protects the farm's net worth, especially during periods of poor economic conditions. Point out that some farm operations often pay too much attention to production and marketing risk management strategies, forgetting that financial obligations must be protected from risk as well, particularly during times of low farm earnings when the cash flow is under stress to demonstrate loan repayability. Too often, a farm operation faces financial failure simply because problems were discovered too late. Many of these operations could have been saved if only the problem were spotted earlier. A poor understanding of the farm's current financial situation, or the inability to make the necessary adjustment in response to a potential problem or risk, is often the real cause of many farms' financial failures.

- Stress that good financial management in a farming operation means developing capabilities for good cash-flow management. During periods of financial hardships, this strategy can be critical for survival of a farm business that is in a highly leveraged debt situation.

Objective 3

- Emphasize that developing the skills necessary for good cash-flow management may be difficult for some class members. Point out the following requirements of good cash flow management:

  — Cash-flow management requires time and practice, but the results are worth the effort. Cash-flow management allows class members to measure accurately the cash-flow potential of the farm business and the loan repayability for the year ahead.

  — Cash-flow management requires self-discipline. The class member must learn to live within the cash-flow budget projections. Spending beyond the farm's ability to generate cash only leads to more serious financial problems.

  — Efforts must be concentrated on enterprises that generate a net return, and the class member should consider eliminating or reducing any income-losing venture in the farming operation.

  — Capital investments that stretch a farm beyond its debt-serving capacity lead to later but more serious financial problems.

  — Projection of cash flow under a number of different possible outcomes using various prices, costs, yields, or interest rates is essential. The class member must become sensitive to changes in revenues and costs during the year.

— The farm's financial performance and cash-flow developments must be monitored on a more regular basis than usual. The class member cannot rely on year-end cash-flow comparisons, but must take time to check and compare the actual and projected returns and costs on a monthly or quarterly basis in order to spot potential problems between projected and actual financial performance. The class member must also continue to check cash revenues to see that they are being used for purposes consistent with farm business and family goals and objectives.

Objective 4

- Point out that cash-flow planning is a part of most financial discussions, especially between lender and borrower.

Objective 5

- Point out that a cash-flow projection is a useful financial management tool, but that it does have limitations.
- Advise class members that in addition to a cash-flow projection, net worth and income statements should also be completed periodically to monitor the performance of the farm business.

Objective 6

- Explain that most class members dealing with lending institutions will complete some type of annual cash-flow plan.

Objective 7

- After discussing the steps in making a cash-flow projection.

Objective 8

- Point out when funds will be available to meet high-expense months and debt commitments.

APPLICATION

Objective 9

- Have class members complete Assignment Sheet 1 after dicsussing the steps in making a cash-flow projection.

Objective 10

- Have class members complete Assignment Sheet 2. to conclude the instruction of this unit.
- Review the available software program for one best suited to your situation.

EVALUATION

Written Test

- Explain to students that they will be asked to demonstrate on the written test those actions listed in the specific objectives.
- Give test.

  NOTE: The written test may be given in sections if desired.
- Evaluate students on assignment sheet activities if not previously done.
- Reteach and retest if necessary.
- Complete appropriate section of competency profiles.
- Review individual and group performance in order to evaluate teaching methods.
- Adjust scope, sequence, or instructional approaches for additional lessons as required

UNIT REFERENCE

- Steward, Jim. *Farm Business Management Volume I.* Stillwater, Oklahoma: State Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, 1984.

INFORMATION SHEET	CASH-FLOW MANAGEMENT	V

OBJECTIVE 1

Match terms associated with cash-flow management to their correct definitions.

- **Cash flow**—Cash received and cash spent during an accounting period
- **Cash-flow management**—The process of monitoring cash inflow and cash outflow
- **Cash-flow projection**—Tool of financial analysis; used to estimate flow of cash through the farm business
- **Cash-flow summary**—Financial statement that shows cash received and cash spent during an accounting period
- **Income statement**—Financial statement reflecting the farm business profitability over a specified period of time
- **Liquidity**—Farm business's capacity to generate sufficient cash to meet its financial obligations as they fall due
- **Net worth statement**—Statement showing the financial condition at a specific time; lists all assets, values of assets, and liabilities of the farm
- **Risk**—Unfavorable occurrence that can be assigned reasonably accurate odds on the chancesof its happening
- **Uncertainty**—Occurrence that cannot be assigned accurate odds on the chances of its happening

OBJECTIVE 2

Select from a list reasons for proper financial management in a farm business operation.

- To keep informed of progress in the business operation
- To make needed adjustments in operation as problems arise
- To be able to adopt courses of action in response to a risk or uncertainty in the business operation

OBJECTIVE 3

State requirements of cash-flow management.

- Preparation of complete and accurate cash-flow projection
- Control of farm expenses

- Recognition of profit opportunities in the farm business
- Feasible capital investment decisions that demonstrate a high degree of repayability
- Incorporation of impacts of risk and uncertainty into farm's financial planning

OBJECTIVE 4 **Select from a list benefits of cash-flow planning.**

- Shows amount and timing of operator's credit needs for year
- Indicates when and how much the operator should be able to repay
- Indicates when idle funds will be available for short-term investment
- Aids operator in evaluating plans
- Aids creditor in helping operator with financial management
- Provides a basis for consultation and re-evaluation of cash-flow plan
- Serves as a business control tool

  EXAMPLES: Purchasing supplies in advance, planning income tax

OBJECTIVE 5 **State limitations of cash-flow projection.**

- Does not measure profitability or net worth
- Does not guarantee financial success
- Requires large amount of time and effort to complete
- Is only as accurate as the input data

OBJECTIVE 6 **State types of cash-flow plans.**

- Transitional cash flow covering more than one year's operation

  NOTE: Class members may develop transitional cash-flow plans only when they are contemplating major changes or expansions to their farm or ranch businesses.

- Annual cash flow covering production year month by month

  NOTE: Annual cash flow plans may be developed by grouping income and expenses according to items, or they may be developed by grouping income and expenses according to the enterprise in which they occur.

OBJECTIVE 7

Arrange in order steps in making a cash-flow projection.

- Determine production and marketing plan for the farm business for the coming year

  EXAMPLES: Identify the number of acres of each crop enterprise; identify the number of head of each livestock enterprise.

- Estimate the amount and timing of cash inflows and outflows expected to occur during the coming year for each enterprise

  EXAMPLES: Operating receipts, operating expenses, capital sales, capital expenses

- Estimate the amount and timing of cash inflows and outflows expected to occur during the coming year from other receipts and expenses

  EXAMPLES: Farm operating income and expenses not allocated to enterprises, non-farm income, non-farm and family living expenses, principal and interest payments on existing debt

- Make necessary calculations to determine cash position for a given period

  NOTE: The cash position will be either positive or negative.

- Determine cash needs or repayment ability

OBJECTIVE 8

State strategies for increasing repayment capacity.

- Increase profitability by changing production and/or marketing plans

  EXAMPLES: Rearrange purchases and sales of crops, livestock, and supplies; diversify; specialize; select enterprises with high capital turnover.

- Change debt structure by refinancing short-term debt

  EXAMPLES: Refinance by using equity in real estate.
- Delay purchases of capital assets
- Consider leasing of capital assets
- Develop a marketing plan
- Seek off-farm employment, part-time or full-time
- Do custom work
- Reduce family living expenses
- Forward price production
- Consider short-term enterprises that generate income quickly

MANAGEMENT TOOLS FOR FINANCIAL PLANNING

- FARM RECORDS
- ANNUAL FINANCIAL STATEMENTS

  NET WORTH STATEMENT BALANCE SHEET

  INCOME STATEMENTS PROFIT AND LOSS STATEMENT

  CASH-FLOW SUMMARY

- CASH-FLOW PLANS
- MARKET OUTLOOK
- USE MICRO COMPUTER TO COMPLETE A CASH FLOW PROJECTION

ASSIGNMENT SHEET 1	CASH-FLOW MANAGEMENT	V

OBJECTIVE 9

Complete a cash-flow projection.

NAME _____ SCORE _____

INTRODUCTION

Cash-flow planning is becoming an increasingly valuable tool in farm financial management. Larger farm size, continued substitution of capital assets for labor, and rapidly rising costs of production have increased the amount required to finance the farm business. As a result, a larger proportion of cash outlay associated with the purchase of farm investments and operating inputs is being financed with borrowed funds. As the levels of debt in the farm financial structure increase, both the class member and the lending institution are subject to greater risk. It is important that both the borrower and the lender know when and how outstanding debts will be retired and the amount of additional debts that can be carried by the farm or ranch business. Cash-flow planning is a tool of financial analysis that can provide information to answer these questions. By projecting the flow of cash through the business, the class member can estimate when and how much annual operating debt will be required, make provisions for its repayment, and determine the repayment capacity of long-term obligations.

DIRECTIONS

Read the following information, and then complete a cash-flow projection for Joe and Mary Farmer.

Joe and Mary Farmer are married and have two sons in high school. Mary works part-time at the high school cafeteria from September through May for $500 per month. The family furnishes all of the labor necessary for the farming operation. The farm share of the utilities averages $100 each month. Joe and Mary anticipate a July bonus payment of $300 per acre on a forty-acre mineral lease. In October, they will also receive an annual mineral lease payment of $10 per acre on 280 acres.

Joe and Mary like to keep a $500 minimum cash balance each month. They estimate their beginning-of-the-year cash balance on January 1 to be $25,500. They annually cash rent 160 acres of native pasture for $15 per acres. One-half of the cash rent is due in January, the remaining one-half in July. They anticipate real estate and personal property taxes of $6,490; $3,200 payable in December, and $3,290 payable in January. The Farmers have insurance premiums of $3,840 due in July. They estimate the February income tax bill to be

$5,000. The family living expenses are estimated to be $1,500 each month.

The Farmers expect in December a patronage refund of $1,500 from the local co-op. They also plan to rent their wheat pasture to a neighbor from October 15 to March 1. The neighbor will run one hundred head of steers at $45 per head with one-half of the payment due in October and the remaining half due in March.

Joe and Mary have been farming for several years and have the following accounts payable.

- **Land note for 240 acres**—Original note is the $150,000 at 8.5 percent interest for thirty years. Current balance is $100,000, payment of $14,459—principal of $5,959, interest of $8,500 is due February 1.
- **Land note for 160 acres**—Original note is for $100,000 at 7 percent interest for thirty years. Current balance is $80,000, payment of $8,619—principal of $3,019; interest of $5,600 is due March 15.
- **Land note for 160 acres**—Original note is for $80,000 at 6 percent interest for thirty years. Current balance is $40,000, payment of $5,812—principal of $3,412, interest of $2,400 is due September 15.
- **Land note for 80 acres**—Original note is for $40,000 at 6 percent interest for thirty years. Current balance is $20,000, payment of $2,906—principal 0f $1,706, interest of 1,200 is due August 15.
- **Tractor and equipment note**—Original note is for $45,000 at 12 percent interest for thirty years. Current balance is $37,916.55, payment for $12,484 principal of $7,934, interest of $4,550 is due January 15.
- **Operating note at the local bank**—Balance on January 1 will be $40,000 with accrued interest as of January 1 of $5,850 and an interest rate of 15 percent.

Joe and Mary own 640 acres and rent an additional 160 acres of pasture. They plan to harvest 200 acres of dry land cotton, 250 acres of wheat, and 40 acres of alfalfa hay. The Farmers also have a 50-cow beef herd.

Joe and Mary have also included plans to build a 40-by-100-foot machinery shed during July and August. In June they plan to hire a bulldozer for clearing the rented pasture land at a cost of $1,000. Joe has shopped around and anticipates that the shed will cost $60,000. The Farmers will need a 25 percent down payment $15,000 payable in July, with the remaining amount of $45,000 financed on a ten-year note at 12 percent interest with annual payments of $7,964.55

Joe and Mary have estimated the timing of inflows and outflows for their farm business, and have computed the total dollars available and total dollars used. Complete the remaining parts of the following cash-flow projection.

NOTE: Interest payments on operating notes are always paid first. An exception to this would be a Production Credit Association (PCA) note for which the interest is paid only once each year.

FORM 6.1P CASH FLOW: PROJECTION

	LINE	JAN	FEB	MAR	APR	MAY	JUNE	6 MONTH SUBTOTAL
RECEIPTS								
Crop Sales Alfalfa hay	1	3075					3050	6125
Wheat	2						32,000	32,000
	3							
	4							
Patronage Dividends	5							
Government Payments	6							
Machine Work	7							
Cash Rent	8			2250				2250
Livestock Products	9							
Raised Non Breeding Livestock	10							
Other Income (add cols. 11-16)	16							
OPERATING SALES TOTAL (add lines 1-16)	A	3075	—	2250	—	—	35,050	40,375
Purchased For Resale Sales	17							
Breeding Livestock Sales	18							
Farm Capital Asset Sales	19							
TOTAL FARM RECEIPTS (add lines A thru 19)	B	3,075	-0-	2250	-0-	-0-	35,050	40,375
Inflow From Loans	20							
Non-Farm Receipts	21	500	500	500	500	500		2,500
Non-Farm Business Receipts	NF							
Family Living Receipts	FL							
TOTAL DOLLARS AVAILABLE (add lines B thru FL)	C	3,575	500	2,750	500	500	35,050	42,875
EXPENDITURES								
Breeding Fees	25							-0-
Chemicals	26							-0-
Conservation, Land Clearing	27							-0-
Feed	28	102						102
Fertilizer, Lime	29		3,773	480		7,440		11,693
Freight and Trucking	30							-0-
Gasoline, Fuel, and Oil	31	225	225	225	1,665	225	225	2,790
Insurance	32							-0-
Labor Hired	33							-0-
Machine Hire	34			1,000		800	6,600	8,400
Mortgage Interest	35	4,550	8,500	5,600				18,650
Other Farm Interest	36							
Rent	37	1,200						1,200
Repairs	38	115	110	110	490	110	453	1,388
Seeds, Plants	39					1,620		1,620
Storage	40							-0-
Supplies	41							-0-
Taxes	42	3,290						3,290
Utilities	43	100	100	100	100	100	100	600
Vet Medicine	44	119			240			359
Misc. Expenses (add cols. 45-47)	47					75	525	600
OPERATING EXPEND. TOTALS (add lines 25-47)	D	9,701	12,708	7,515	2,495	10,370	7,903	50,692
Purchased For Resale	48							-0-
Breeding Livestock Purchases	49	360						360
Machinery and Equipment Purchases	50							-0-
Land, Building, and Improvements	51							-0-
TOTAL FARM EXPENSES (add lines D thru 51)	E	10,061	12,708	7,515	2,495	10,370	7,903	51,052
Principal Payment on Previous Debt Commitments	52	7,934	5,959	3,019				16,912
Non-Farm Expenses	53							-0-
Non-Farm Business Expenditures	NF							-0-
Family Living Expenses	FL	1,500	6,500	1,500	1,500	1,500	1,500	14,000
TOTAL DOLLARS USED (add lines E thru FL)	F	19,495	25,167	12,034	3,995	11,870	9,403	81,9164
Cash Difference (C-F)	G							
Beginning Cash Balance	H							
*Cash Position (G+H)	I							
Money Borrowed this Period	J							
Principal Payments on Operating Loan	K							
Interest Payments on Operating Loan	L							
Ending Cash Balance	M							
Accumulated Borrowing ( )**	N							

Accrued Interest ( )**

*Cash Position — Negative figure indicates need to borrow
Positive figure reduces accumulated debt and interest

**Beginning Operating Loan Balance and accrued interest

FORM 6.2P CASH FLOW PROJECTION

	LINE	JULY	AUG	SEP	OCT	NOV	DEC	6 MONTH SUBTOTAL	YEAR END TOTAL
RECEIPTS									
Crop Sales Alfalfa hay	1	3050	3050				3075	9,175	15,300
Wheat	2							-0-	32,000
Cotton	3						64,640	64,640	64,640
	4								
Patronage Dividends	5						1,500	1,500	1,500
Government Payments	6								
Machine Work	7								
Cash Rent	8				2250			2,250	4,500
Livestock Products	9								
Raised Non Breeding Livestock	10			18,108				18,108	18,108
Other Income (add cols. 11-16)	16								
OPERATING SALES TOTAL (add lines 1-16)	A	3,050	3,050	18,108	2,250	—	69,215	95,673	136,048
Purchased For Resale Sales	17								
Breeding Livestock Sales	18			5,120				5,120	5,120
Farm Capital Asset Sales	19								
TOTAL FARM RECEIPTS (add lines A thru 19)	B	3,050	3,050	23,228	2,250	-0-	69,215	100,793	141,168
Inflow From Loans	20								
Non Farm Receipts	21	12000		500	3,300	500	500	16,800	19,300
Non Farm Business Receipts	NF								
Family Living Receipts	FL								
TOTAL DOLLARS AVAILABLE (add lines B thru FL)	C	15,050	3,050	23,728	5,550	500	69,715	117,593	160,468
EXPENDITURES									
Breeding Fees	25							-0-	-0-
Chemicals	26							-0-	-0-
Conservation: Land Clearing	27							-0-	-0-
Feed	28	1,888	1,000	102				2990	3092
Fertilizer, Lime	29	3,000		4943				7,943	19,636
Freight and Trucking	30							-0-	-0-
Gasoline, Fuel, and Oil	31	225	225	3,370	225	225	241	4,511	7,301
Insurance	32	3,840						3,840	3,840
Labor Hired	33							-0-	-0-
Machine Hire	34	390	390	1,449				2,229	10,629
Mortgage Interest	35		1,200	2,400				3,600	22,250
Other Farm Interest	36							-0-	-0-
Rent	37	1,200						1,200	2,400
Repairs	38	110	900	110	110	400	110	1,740	3,128
Seeds, Plants	39			1,560				1,560	3,180
Storage	40						5,330	5,330	5,330
Supplies	41							-0-	-0-
Taxes	42						3200	3200	6490
Utilities	43	100	100	100	100	100	100	600	1200
Vet Medicine	44					119		119	478
Misc. Expenses (add cols. 45-47)	47	75	75	80				230	830
OPERATING EXPEND. TOTALS (add lines 25-47)	D	10,828	3,890	14,114	435	844	8,981	39,092	89,784
Purchased For Resale	48							-0-	-0-
Breeding Livestock Purchases	49							-0-	360
Machinery and Equipment Purchases	50							-0-	-0-
Land, Building, and Improvements	51	15,000						15000	15,000
TOTAL FARM EXPENSES (add lines D thru 51)	E	25,828	3,890	14,114	435	844	8,981	54092	105,144
Principal Payment on Previous Debt Commitments	52		1706	3,412				5,118	22030
Non Farm Expenses	53								-0-
Non Farm Business Expenditures	NF								-0-
Family Living Expenses	FL	1500	1,500	1,500	1,500	1,500	1,500	9,000	23,000
TOTAL DOLLARS USED (add lines E thru FL)	F	27,328	7096	19,026	1,935	2,344	10,481	68,210	150,174
Cash Difference (C-F)	G								
Beginning Cash Balance	H								
*Cash Position (G+H)	I								
Money Borrowed this Period	J								
Principal Payments on Operating Loan	K								
Interest Payments on Operating Loan	L								
Ending Cash Balance	M								
Accumulated Borrowing ( )**	N								

Accrued Interest ( )**

*Cash Position — Negative figure indicates need to borrow
Positive figure reduces accumulated debt and interest

**Beginning Operating Loan Balance and accrued interest

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ASSIGNMENT SHEET 2	CASH-FLOW MANAGEMENT	V

OBJECTIVE 10

Complete a cash-flow projection and checklist for your personal farm situation.

NAME _____ SCORE _____

INTRODUCTION

Informal cash-flow projections are difficult to evaluate. There is a tendency to forget the bad decisions and remember the good ones. Formalizing a cash-flow projection in writing facilitates the review of the situation when the projection was developed, the exact objectives, the strategies, and the reasons for the strategy. Written, formal projections also allow the class member to improve financial, production, and marketing efficiency.

By keeping records, the class member can compare the cash-flow summary with the cash-flow projection and can more efficiently evaluate financial, production, and marketing plans and come closer to meeting farm business and family goals and objectives.

PART I

DIRECTIONS

Complete a cash-flow projection for your farm situation, using either Forms 6.1P and 6.2P or a micro-computer cash-flow program.

NOTE: Your instructor will provide you with these forms.

PART II

Complete the checklist on the following pages to analyze the cash-flow projection for your farm situation.

CHECKLIST FOR ANALYZING A CASH-FLOW PROJECTION

DATE COMPLETED: _____

	YES	NO	COMMENTS
VERIFYING ENTERPRISE BUDGETS			
Are all enterprises in the farm or ranch operation included?			
Are all enterprise receipts reported?			
Are all enterprise expenses reported?			
Are any items included more than once?			
Were projected prices consistent throughout?			
Was correct month used for reporting income and expenses?			
Other:			
Other:			
VERIFYING CASH-FLOW INPUTS			
Income			
Is all enterprise income accounted for and entered in the correct months?			
Is all other anticipated income such as patronage dividends, accounted for and entered in the correct months?			
Is income from capital sales accounted for and entered in the correct months?			
Is all nonfarm income (wages, bonuses, etc.) reported and entered in the correct months?			
Other:			
Expenses			
Are all enterprise expenses accounted for and entered in the correct months?			
Are feeder livestock purchased for resale entered correctly?			
Are hired labor hours and values reasonable for the farm or ranch operation, and are they entered correctly?			
Are all other nonenterprise operating expenses, such as the farm share of utilities, entered correctly?			
Are fixed costs, such as real estate taxes, personal property taxes, and insurance, entered correctly?			

	YES	NO	COMMENTS
Are anticipated capital purchases entered correctly? (Down payment or appropriate repayment schedule)			
Are all current debt commitments, interest and principal, accounted for and entered correctly?			
Are family living expenses realistically estimated and entered correctly? (Do not forget personal income taxes.)			
Other:			

	YES	NO	COMMENTS
OTHER INPUTS			
Is the beginning cash balance correct?			
Is the beginning monthly cash balance appropriate?			
Does the cash flow projection begin in an appropriate month?			
Are the beginning operating loan balance and accrued interest balance accurate?			
Is an appropriate interest rate used for the operating loan?			
Other:			
ANALYSIS			
Is there a positive cash position at the end of the year?			
If no — Have you verified numbers you thought were distorted?			
Has all income been included?			
Have you reviewed the relationship of cash inflows and outflows for each month and the totals for the year?			
Other:			
Did borrowing needs change during the year?			
If borrowing increased Were large capital purchases made?			
Were there unexplained operating expenses, such as cattle bought but not sold?			
Did ending inventories increase?			
Were prepaid expenses for last year or this year included in projection?			
Other:			

	YES	NO	COMMENTS
If borrowing decreased Should additional capital purchases have been made?			
Was there production, such as stocker cattle, grain on inventory, sold and not replaced?			
Were two crops sold in one year?			
Did ending inventory decrease from beginning?			
Other:			
Do you find peak borrowing periods? (High in individual months)			
If yes — Will line of credit have to be restructured?			
Was borrowing because of operating expenses?			
Was borrowing due to increasing inventory?			
Should the purchases of capital items be changed to a different month?			
Other:			
Did accrued interest increase from the beginning to the ending of the year?			
Did accumulated borrowings reach zero at any time during the year?			
If accumulated borrowings reached zero, are there other uses for surplus funds?			
Other:			
Other:			

ADJUSTMENTS TO BE MADE

_____

_____

_____

_____

_____

ASSIGNMENT SHEET 1

FORM 6.1P CASH FLOW PROJECTION

	53							
Non-Farm Business Expenditures	NF							
Family Living Expenses	FL							
TOTAL DOLLARS USED (add lines E thru FL)	F							
Cash Difference (C-F)	G	(15920)	(24,667)	(9284)	(3495)	(11,370)	25,647	(39089)
Beginning Cash Balance	H	25,500	500	500	500	500	500	28,000
*Cash Position (G+H)	I	9,580	(24167)	(8784)	(2995)	(10,870)	26,147	(11,089)
Money Borrowed this Period	J		24667	9284	3495	11,370		48,816
Principal Payments on Operating Loan	K	2730					21507	24,237
Interest Payments on Operating Loan	L	6350					4,140	10,490
Ending Cash Balance	M	500	500	500	500	500	500	3,000
Accumulated Borrowing (40,000)**	N	37270	61937	71,221	74,716	86,086	64,579	64,579

Accrued Interest (5850)**

(40,000 + 48,816 − 24,237) = 64,579

*Cash Position — Negative figure indicates need to borrow
Positive figure reduces accumulated debt and interest

**Beginning Operating Loan Balance and accrued interest

FORM 6.2P CASH FLOW PROJECTION

Non-Farm Business Expenditures	NF								
Family Living Expenses	FL								
TOTAL DOLLARS USED (add lines E thru FL)	F								
Cash Difference (C-F)	G	(12,278)	(4046)	4,702	3,615	(1844)	59,234	49,383	10,294
Beginning Cash Balance	H	500	500	500	500	500	500	3,000	31,000
*Cash Position (G+H)	I	(11,778)	(3546)	5,202	4,115	(1,344)	59,734	52,383	41,294
Money Borrowed this Period	J	12,278	4046			1,844		18,168	66,984
Principal Payments on Operating Loan	K			1,923	2,628		57,302	61,853	86,090
Interest Payments on Operating Loan	L			2,779	987		1,932	5,698	16,188
Ending Cash Balance	M	500	500	500	500	500	500	3,000	6,000
Accumulated Borrowing (64,579)**	N	76,957	80,903	78,980	76,352	78196	20,894	20,894	20,894

Accrued Interest (0.00)**

(64,579 + 18168 − 61853) = 20894
(40,000 + 66984 − 86,090) = 20894

*Cash Position — Negative figure indicates need to borrow
Positive figure reduces accumulated debt and interest

**Beginning Operating Loan Balance and accrued interest

ASSIGNMENT SHEET 2

Answers will vary among class members. This assignment sheet should be evaluated on the basis that the class member completed the forms accurately.

WRITTEN TEST	CASH-FLOW MANAGEMENT	V

NAME _____ SCORE _____

OBJECTIVE 1

Match to their correct definitions terms associated with cash-flow management. Write the correct letters in the blanks.

__1. Unfavorable occurrence that can be assigned reasonably accurate odds on the chances of its happening	a. Income statement
__2. Financial statement that shows cash received and cash spent during an accounting period	b. Cash-flow projection
__3. Tool of financial analysis; used to estimate flow of cash through the farm business	c. Uncertainty
__4. Statement showing the financial condition at a specific time; lists all assets, values of assets, and liabilities of the farm	d. Cash flow
__5. Financial statement reflecting the farm business profitability over a specified period of time	e. Liquidity
__6. Farm business's capacity to generate sufficient cash to meet its financial obligations as they fall due	f. Net worth statement
__7. Cash received and cash spent during an accounting period	g. Risk
__8. Occurrence that cannot be assigned accurate odds on chances of its happening	h. Cash-flow summary
	i. Equality
	k. Income balance
	l. Balance sheet
	m. Luck
	n. Balance projection

OBJECTIVE 2

Select from the following list reasons for proper financial management in a farm business operation. Write an "X" in the blank before each correct answer.

__ 1. To obtain greater yields per acre

__ 2. To keep informed of progress in the business operation

__ 3. To make needed adjustments in operation as problems arise

__ 4. To increase milk production per cow

__ 5. To be able to adopt courses of action in response to a risk or uncertainty in the business operation

OBJECTIVE 3

State three requirements of cash-flow management.

_____

_____

_____

OBJECTIVE 4

Select from the following list benefits of cash-flow planning. Write an "X" in the blank before each correct answer.

__ 1. Aids creditor in helping operator with financial management

__ 2. Indicates when and how much the operator should be able to repay

__ 3. Determines profitability of farm business

__ 4. Serves as a business control tool

__ 5. Indicates assets and liabilities of farm business

__ 6. Aids operator in evaluating plans

__ 7. Shows amount and timing of operator's credit needs for year

__ 8. Provides a basis for consultation and re-evaluation of cash-flow plan

__ 9. Shows occurrences that cannot be assigned accurate odds on the chances of their happening

__ 10. Indicates when idle funds will be available for short-term investment

OBJECTIVE 5

State four limitations of cash-flow projection

1. _____

2. _____

3. _____

4. _____

OBJECTIVE 6

State types of cash-flow plans.

_____

_____

OBJECTIVE 7

Arrange in order steps in making a cash-flow projection. Write a "a" before the first step, a "b" before the second, and so on.

Estimate the amount and timing of cash inflows and outflows expected to occur during the coming year for other receipts and expenses

Determine cash needs or repayment ability

Determine production and marketing plan for the farm business for the coming year

Make necessary calculations to determine cash position for a given period

Estimate the amount and timing of cash inflows and outflows expected to occur during the coming year for each enterprise

OBJECTIVE 8 **State four strategies for increasing repayment capacity.**

_____

_____

_____

_____

NOTICE: Test questions 9 and 10 list the assignment sheets. They are an important part of this test. If they have not been completed, check with your instructor.

OBJECTIVE 9 **Complete a cash-flow projection.** SCORE _____

OBJECTIVE 10 **Complete a cash-flow projection and checklist for your personal farm situation.** SCORE _____

ANSWERS TO TEST	CASH-FLOW MANAGEMENT	V

OBJECTIVE 1

1. g
2. h
3. b
4. f
5. a
6. e
7. d
8. c

OBJECTIVE 2

2, 3, 5

OBJECTIVE 3

Answer should include any three of the following

- Preparation of complete and accurate cash-flow projection
- Control of farm expenses
- Recognition of profit opportunities in the farm business
- Feasible capital investment decisions that demonstrate a high degree of repayability
- Incorporation of impacts of risk and uncertainty into the farm's financial planning

OBJECTIVE 4

1, 2, 4, 6, 7, 8, 10

OBJECTIVE 5

- Does not measure profitability or net worth
- Does not guarantee financial success
- Requires large amount of time and effort to complete
- Is only as accurate as the input data

OBJECTIVE 6

- Transitional cash flow covering more than one year's operation
- Annual cash flow covering production year month by month

OBJECTIVE 7 3, 5, 1, 4, 2

OBJECTIVE 8 Answer should include any four of the following

- Increase profitability by changing production and/or marketing plans
- Change debt structure by refinancing short-term debt
- Delay purchases of capital assets
- Consider leasing of capital assets
- Develop a marketing plan
- Seek off-farm employment, part-time or full-time
- Do custom work
- Reduce family living expenses
- Forward price production
- Consider short-term enterprises that generate income quickly

OBJECTIVE 9 Refer to answers to Assignment Sheet 1.

OBJECTIVE 10 Refer to answers to Assignment Sheet 2.

OBJECTIVE SHEET	NET WORTH STATEMENT	VI

UNIT OBJECTIVE

After completing this unit, the class member should be able to complete a net worth statement and use a spread sheet to analyze net worth statement. The class member will demonstrate these competencies by completing assignment sheets and written test with a minimum of 85 percent accuracy.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to

1. Match terms associated with net worth statements to the correct definitions.
2. State purposes of a net worth statement.
3. Distinguish among assets according to time and convertibility.
4. Define liabilities according to time.
5. Write the mathematical formula for determining net worth.
6. Select from a list characteristics of current ratio.
7. Select from a list characteristics of working asset ratio.
8. Select from a list characteristics of net capital ratio.
9. Select from a list characteristics of debt-to-equity ratio.
10. Select from a list characteristics of percent equity ratio.
11. Complete a net worth statement. (Assignment Sheet 1)
12. Compare the growth of the farm operation during the past year. (Assignment Sheet 2)

SUGGESTED ACTIVITIES	NET WORTH STATEMENT	VI

PREPARATION

Obtain materials to supplement this unit.

- Make photo copies of all forms needed to complete this unit. Those forms include:

DELIVERY

Objective 1

- Discuss the terms associated with net worth statements.
- Compare the definitions of a balance sheet and a spread sheet.

Objective 2

- Poll the class members for possible purposes of a net worth statement and write those responses on the board or overhead.
- Discuss the differences and similarities between the class members' responses to those listed in the book.

Objective 3

- Discuss the assets according to time and convertability.
- Give a "real-life" example of each item.

Objective 4

- Discuss the liabilities according to time.
- Give a "real-life" example of each item.

Objective 5

- Use this objective to explain the mathematical formula for determining net worth.
- Provide the class members with various examples on the board or overhead projector.

Objective 6

- Discuss the characteristics of current ratio and the formula for calculating current ratio.
- Provide the class members with various examples on the board or overhead projector.

Objective 7

- Discuss the characteristics of working asset ratio and the formula for calculating work asset ratio.
- Provide the class members with various examples on the board or overhead projector.

Objective 8

- Discuss the characteristics of net capital ratio and the formula for calculating net capital ratio.
- Provide the class members with various examples on the board or overhead projector.

Objective 9

- Carefully discuss the characteristics of debt-to-equity ratio and the formula for calculating current ratio.
- Provide the class members with various examples on the board or overhead projector.

Objective 10

- Carefully discuss the characteristics of percent equity ratio and the formula for calculating debt-to-equity ratio.
- Provide the class members with various examples on the board or overhead projector.

APPLICATION

Objective 11

- Supplement your discuss of Objective 2 with Asignment Sheet 1.
- Provide the class members with copies of the 6.3 and 6.4 so that they may complete Assignment Sheet 1.

Objective 12

- Have students complete Assignment Sheet 2.
- Assist class member with completing computerized form and detailed enterprise analysis input forms during on-farm visit.
- Assist each class member during on-farm visit with completing the net worth statement and interpreting results.

EVALUATION

Written Test

- Explain to class members that they will be asked to demonstrate on the written test the actions listed in the specific objectives.
- Give test.

  NOTE: The written test may be administered in sections if desired.
- Evaluate class members on assignment sheet activities if not previously done.
- Reteach and retest if necessary.
- Review individual and group performance in order to evaluate teaching methods. Adjust scope, sequence, or instructional approaches for additional lessons as required.

UNIT REFERENCE

- Steward, Jim. *Farm Business Management, Volume I.* Stillwater, Oklahoma: Oklahoma State Department of Vocational and Technical Education/Curriculum and Instructional Materials Center, 1984.

OBJECTIVE 1

Match terms associated with net worth statements to their correct definitions.

- **Adjusted tax basis**—Original cost of an asset, plus the value of improvements or alterations, less the cost of depreciation, losses, or depletion

- **Asset**—Item or resource controlled by the farm business

  NOTE: Methods used in determining asset values should remain consistent form one year to the next.

- **Net worth statement**—Statement of financial assets and liabilities at a given date for a farm

- **Collateral**—Livestock, land, and other personal property used to secure a loan

- **Inventory**—Assets used in or claimed by the farm business

- **Liability**—Financial claim against the farm business

- **Liquidity**—Farm's capacity to generate sufficient cash to meet its financial obligations as they fall due

  Net worth—Value of assets not claimed by individuals of firms outside the farm business or owner's claim on the assets

  NOTE: Net worth statements are also known as *balance sheets, financial statements,* or *statements of financial condition.*

- **Ratio**—Relationship in quantity, amount, or size between two or more things

- **Solvency**—Firm's ability to meet long-run claims against the business

  NOTE: Solvency indicates total assets exceed total liabilities.

- **Spread sheet**—Form used for comparative analysis of a net worth statement for several years

  NOTE: The net worth statement should be completed each year at the same time if the class member wishes to measure year-to-year growth and trends.

- **Working capital**—Current assets minus current liabilities

  NOTE: Working capital represents the excess of current assets over current liabilities.

OBJECTIVE 2

State purposes of a net worth statement.

NOTE: A net worth statement is one of the more common instruments used to measure financial progress in agriculture. It cannot measure profitability except to the extent of increases in net worth from year to year. It does not measure the repayment capacity or ability to meet financial obligations as they fall due.

- Measures present financial position
- Records growth in the farm business through changes in net worth
- Provides an indication of the amount of debt supported by various classes of assets
- Provides early warning through ratio analysis of problems that may arise in the short-run, intermediate, and long-run
- Reveals liquidity and solvency

OBJECTIVE 3

Distinguish among assets according to time and convertibility.

Current assets

EXAMPLES: Cash on hand; non-breeding livestock; feed; crops; supplies; savings accounts; bonds; marketable securities; pre-paid expenses; accounts receivable

- Are cash and other liquid assets which may be quickly converted into cash without any loss in value
- Have well-established markets
- Have prices which are widely known

Intermediate assets

NOTE: These assets can be bought and sold on a regular basis. Turnover rate of these assets is considered to be greater than one year and less than ten years.

EXAMPLES: Machinery; equipment; tools; breeding stock; securities not easily marketed; irrigation equipment

- Are primarily used in the production process
- Are used up in more than one production period
- Are not legally or directly attached to the land
- Have markets which are negotiated by individuals
- Have prices which may not be widely known
- Are usually not easily converted to cash without some loss in value

Long-term assets

NOTE: Long-term assets also are referred to as *fixed assets*.

EXAMPLES: Real estate; buildings; wells; terraces; fences

- Are used in production and are considered permanent
- Are not readily converted to cash because they normally are not held for sale
- Have the least-established markets

OBJECTIVE 4

Define liabilities according to time.

NOTE: Liabilities represent claims upon assets. These usually are grouped according to the time period in which they are due.

- **Current liabilities**—Claims falling due within one year

  EXAMPLES: Accounts payable; accrued interest; taxes; rent; short-term notes due within the year; principal payment due during the coming year on intermediate and long-term liabilities

  NOTE: Current liabilities usually are claims against current assets of the farm.

- **Intermediate liabilities**—Claims which are for more than one year but less than 10 years

  EXAMPLES: Loans or irrigation equipment; machinery; equipment; breeding livestock

  NOTE: Intermediate liabilities usually are claims on intermediate term assets.

- **Long-term liabilities**—Claims exceeding 10 years in maturity

  EXAMPLES: Real estate loans; building loans

  NOTE: Long-term liabilities are counterparts of fixed assets.

OBJECTIVE 5 **Write mathematical formula for determining net worth.**

- NET WORTH = TOTAL ASSETS - TOTAL LIABILITIES

  NOTE: Net worth is calculated by subtracting total liabilities from total assets. Net worth figures are useful because they indicate to lenders the risk-bearing capacity of the business. If net worth increases are made up mainly of increases in land values, the economic performance of the business is making little or no contribution to increases in net worth.

OBJECTIVE 6 **Select from a list characteristics of current ratio.**

NOTE: Certain ratios over time give valuable information which enables the class member to make necessary adjustments. Ratio analysis measures movements and trends in average relationships; they are, at best, indications of position with respect to previous points in time. Examine changes within the structure of the farm which have led to changes in net worth. Ratios yield important information about the financial structure of the farm, but do not indicate why strengths or weaknesses exist. Ratios may change over time because of changes in inventory or values of inventory. Values of the discussed ratios in this section will vary by size and type of farm.

- Is probably used by more analysts than any other ratio
- Is calculated as

$$\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}} = \text{CURRENT RATIO}$$

- Gives class member an idea of farm's ability to meet its short-run payment obligations

- For agriculture, a ratio of 2:1 is considered a good indicator of the farm's ability to meet short-run obligations

  Example: A class member determines from the current net worth statement that $30,000 worth of current assets are held, and there are $15,000 worth of current liabilities. The ratio is 2:1 or $30,000/$15,000=2 to 1.

  NOTE: This ratio will vary by the type and size of the farm business.

- A ratio of 1:1 is marginal; below 1:1 indicates potential liquidity problems

  NOTE: If class member has a current ratio of below 1:1, current liabilities would have to be met out of income generated on the farm or from non-farm sources. Refinancing might be arranged from intermediate and long-term assets.

- Is subjected by many analysts to qualitative test for each business

OBJECTIVE 7

Select from a list characteristics of working asset ratio.

- Is the ratio of current plus intermediate assets to current plus intermediate liabilities

- Is calculated as

$$\frac{\text{CURRENT + INTERMEDIATE ASSETS}}{\text{CURRENT + INTERMEDIATE LIABILITIES}} = \text{WORKING ASSET RATIO}$$

- Is used to determine farm solvency over an intermediate time span of one to 10 years

- Provides valuable information on loan security and repayability; a good rule of thumb for agriculture is rate of 3:1

  NOTE: Lenders who loan money on machinery and equipment would be interested in this ratio. This ratio will vary by the type and size of the farm business.

OBJECTIVE 8 **Select from a list characteristics of net capital ratio.**

- Compares total farm assets to total farm liabilities
- Is calculated as

$$\frac{\text{TOTAL FARM ASSETS}}{\text{TOTAL FARM LIABILITIES}} = \text{NET CAPITAL RATIO}$$

- Is used as an indication of the long-run solvency of the business
- Interests lenders because it shows debt load in relation to the total asset value of the farm
- A ratio of less than one indicates that a business is insolvent and could not cover all of its debts if forced to liquidate
- Lenders generally like to see a ratio of 2:1 which indicates the borrower has substantial risk-bearing ability

  NOTE: If class member has a 2:1 net capital ratio, the value of assets could decline by 50% before becoming insolvent.

OBJECTIVE 9 **Select from a list characteristics of debt-to-equity ratio.**

- Measures the farm's total financial obligations to creditors in relation to the capital provided by the class member
- Is calculated as

$$\frac{\text{TOTAL LIABILITIES}}{\text{EQUITY (NET WORTH)}} = \text{DEBT-TO-EQUITY RATIO}$$

- Many lending institutions prefer low leverage ratios and interpret most movement in that direction as progress
- Higher ratios generate accelerated rates of growth when the rate of return on the investment is greater than the interest rate
- Many lenders prefer that the borrower have at least as large of an investment in the farm as the lender
- Generally speaking, maximum ratios should be 1:1

  NOTE: This is not a maximum for all agriculture business; some class members may be able to handle a larger rate of 1.5:1 or 3:1.

OBJECTIVE 10

Select from a list characteristics of percent equity ratio.

- Is the ratio of net worth to total assets
- Is calculated as

$$\frac{\text{NET WORTH}}{\text{TOTAL ASSETS}} \times 100 = \text{PERCENT EQUITY RATIO}$$

- Is a measure of the risk-bearing ability of the farm
- Lenders prefer to loan on a percent equity above 50%

Examples: Net worth is calculated at $200,000; total assets are calculated at $320,000. Percent equity is calculated at 62.5%, for every dollar of assets the class member has; 62.5 cents is owner equity and 37.5 cents is debt obligations.

ASSIGNMENT SHEET 1	NET WORTH STATEMENT	VI

NAME _____ SCORE _____

OBJECTIVE 11 **Complete a net worth statement.**

DIRECTIONS Use forms on the following pages to complete the following net worth statement using the given information for 19__. Do not calculate adjustments to present values or non-farm assets and liabilities.

BEGINNING INVENTORY 19__

	BOOK VALUE	CURRENT VALUE
Cash in farm account	$8,000.00	$8,000.00
Beef non-breeding	7,300.00	7,000.00
Stored crops	21,750.00	21,750.00
Supplies	600.00	600.00
Beef breeding	15,000.00	20,000.00
Machinery and equipment	15,755.00	25,000.00
Buildings	5,500.00	10,000.00
Land	295,000.00	600,000.00
Portions of intermediate and long-term debt due next year	25,000.00	25,000.00
Portions of intermediate debt due after next year	17,000.00	17,000.00
Long-term debt due after next year	90,000.00	90,000.00

ENDING INVENTORY

	BOOK VALUE	CURRENT VALUE
Cash in farm account	$20,500.00	$20,500.00
Beef non-breeding	17,753.00	17,753.00
Stored crops	45,000.00	45,000.00
Supplies	5,700.00	5,700.00
Beef breeding	25,000.00	30,000.00
Machinery and equipment	27,036.00	35,000.00
Buildings	6,700.00	12,000.00
Land	295,000.00	600,000.00
Portion of intermediate and long-term debt due next year	17,000.00	17,000.00
Portion of intermediate debt due after next year	13,527.00	13,527.00
Long-term debt due after next year	93,000.00	93,000.00

FORM 6.3 DATE: NET WORTH STATEMENT: FARM AND NON-FARM ASSETS 19___

	LINE		CURRENT VALUE			BOOK VALUE		
			BEGINNING	ENDING	NET CHANGE (2-1)	BEGINNING	ENDING	NET CHANGE (5-4)
NON-FARM ASSETS		**CURRENT ASSETS**						
	1	Family Bank Balance	$		$	$	$	$
	2	Savings						
	3	Stocks and Bonds (present value)						
	4	Accounts and Notes Receivable						
	5	Life Insurance (cash value)						
	6	Non-Farm Business Assets						
	7	**TOTAL NON-FARM CURRENT ASSETS** (add 1-6)						
		INTERMEDIATE AND LONG TERM ASSETS						
	8	Auto and other Vehicles (family share)						
	9	Household and Other						
	10	Other Non-Farm Assets						
	11	Non-Farm Real Estate						
	12	Non-Farm Business Assets						
	13	**TOTAL NON-FARM ASSETS** (add 7 thru 12)						
FARM ASSETS		**CURRENT ASSETS**						
	14	Cash in Farm Account						
	15	Farm Accounts Receivable (forms 4.1 + 4.2)						
	16	Beef non-breeding (form 3.8)						
	17	Other non-breeding (form 3.8)						
	18	Other non-breeding (form 3.8)						
	19							
	20	Purchased Feeds (form 3.9 line 5)						
	21	Stored Crops (form 3.9 line 16)						
	22	Growing Crops (form 3.9 line 19)						
	23	Supplies (form 3.9 line 35)						
	24	Other Current Assests (form 3.9 line 38)						
	25	**TOTAL FARM CURRENT ASSETS** (add 14 thru 24)						
		INTERMEDIATE ASSETS						
	26	Beef, breeding (form 3.8)						
	27	Other breeding (form 3.8)						
	28	Other breeding (form 3.8)						
	29							
	30	Farm Accounts Receivable (forms 4.1 + 4.2)						
	31	Machinery and Equipment (form 3.1 or 3.2)						
	32	**TOTAL FARM INTERMEDIATE ASSETS** (add 26 thru 31)						
		LONG TERM ASSETS						
	33	Buildings (form 3.5 or 3.6)						
	34	Land (form 3.5 or 3.6)						
	35	**TOTAL FARM LONG TERM ASSETS** (add 33 + 34)						
	36	**TOTAL FARM ASSETS** (add 25 + 32 + 35)						
	37	**TOTAL ASSETS** (add 13 + 36)						
			1	2	3	4	5	6

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FORM 6.4 DATE: NET WORTH STATEMENT: FARM AND NON-FARM LIABILITIES 19___

	LINE		CURRENT VALUE			BOOK VALUE		
			BEGINNING	ENDING	NET CHANGE (6-7)	BEGINNING	ENDING	NET CHANGE (11-10)
NON-FARM LIABILITIES		**CURRENT LIABILITIES**						
	38	Charge Accounts	$	$	$	$	$	$
	39	Notes, portion due within 12 months						
	40	Mortgages, due within 12 months						
	41	Accrued Interest on non-farm liabilities						
	42	Non-Farm Business Liabilities due within 12 mos.						
	43	**TOTAL NON-FARM CURRENT LIABILITIES (add 38-42)**						
		INTERMEDIATE AND LONG TERM LIABILITIES						
	44	Notes, portion due beyond 12 months						
	45							
	46	Mortgages, portion due beyond 12 months						
	47	Non-Farm Business Liabilities due beyond 12 mos.						
	48	**TOTAL NON-FARM LIABILITIES (add 43 thru 47)**						
	49	**NON-FARM NET WORTH (line 13 minus line 48)**						
FARM LIABILITIES		**CURRENT LIABILITIES**						
	50	Short Term Farm Notes Payable (form 4.4)						
	51							
	52							
	53	Accounts Payable (form 4.3)						
	54							
	55							
	56	Credit Lines and Short Term Notes (form 4.4)						
	57	Intermediate Term Debt due within 12 months (form 4.5)						
	58	Long Term Debt due within 12 months (form 4.5)						
	59	Accrued Liabilities (taxes, rent, etc.)						
	60	Accrued Interest						
	61	**TOTAL FARM CURRENT LIABILITIES (add 50 thru 60)**						
		INTERMEDIATE LIABILITIES						
	62	Intermed. Term Debt Due beyond 12 months (form 4.5)						
	63							
	64							
	65	**TOTAL FARM INTERMEDIATE LIABILITIES (add 62-64)**						
		LONG TERM LIABILITIES						
	66	Long Term Debt Due beyond 12 months (form 4.5)						
	67							
	68							
	69	**TOTAL FARM LONG TERM LIABILITIES (add 66-68)**						
	70	**TOTAL FARM LIABILITIES (add 61 + 65 + 69)**						
	71	**TOTAL FARM NET WORTH (line 36 minus 70)**						
	72	**TOTAL LIABILITIES (add 48 + 70)**						
	73	**TOTAL NET WORTH (line 37 minus 72)**						
			7	8	9	10	11	12

ASSIGNMENT SHEET 2	NET WORTH STATEMENT	VI

NAME _____ SCORE _____

OBJECTIVE 12

Compare the growth of your operation during the past year.

INTRODUCTION

Comparing year-to-year growth enables class members to determine what changes, if any, need to be made in the farming operations. This can be accomplished by comparing net worth statements at the beginning and end of the year.

DIRECTIONS

Using the figures from Forms 6.3 through 6.5, calculate the current ratio, working asset ratio, net capital ratio, debt-to-equity ratio, and percent equity. Interpret all ratios calculated.

NOTE: As you accumulate more years of records, you can better analyze the trend of your operation. Use the analysis to make necessary changes in your operation.

- Current ratio

  Comments:

- Working asset ratio

Comments:

- Net capital ratio

Comments:

- Debt-to-equity ratio

Comments:

- Percent equity

Comments:

Assignment Sheet 1

See following pages.

Assignment Sheet 2

Answers to this assignment sheet will vary among class members.

FORM 6.3 DATE: NET WORTH STATEMENT: FARM AND NON-FARM ASSETS 19___

	LINE		CURRENT VALUE			BOOK VALUE		
			BEGINNING	ENDING	NET CHANGE (2-1)	BEGINNING	ENDING	NET CHANGE (5-4)
NON-FARM ASSETS		**CURRENT ASSETS**						
	1	Family Bank Balance	$	$	$	$	$	$
	2	Savings						
	3	Stocks and Bonds (present value)						
	4	Accounts and Notes Receivable						
	5	Life Insurance (cash value)						
	6	Non-Farm Business Assets						
	7	**TOTAL NON-FARM CURRENT ASSETS** (add 1-6)						
		INTERMEDIATE AND LONG TERM ASSETS						
	8	Auto and other Vehicles (family share)						
	9	Household and Other						
	10	Other Non-Farm Assets						
	11	Non-Farm Real Estate						
	12	Non-Farm Business Assets						
	13	**TOTAL NON-FARM ASSETS** (add 7 thru 12)						
FARM ASSETS		**CURRENT ASSETS**						
	14	Cash in Farm Account	8,000	20,000	12,500	8,000	20,500	12,500
	15	Farm Accounts Receivable (forms 4.1 + 4.2)						
	16	Beef non-breeding (form 3.8)	7,306	17,753	10,453	7,300	17,753	10,453
	17	Other non-breeding (form 3.8)						
	18	Other non-breeding (form 3.8)						
	19							
	20	Purchased Feeds (form 3.9 line 5)						
	21	Stored Crops (form 3.9 line 16)	21,750	45,000	23,250	21,750	45,000	23,250
	22	Growing Crops (form 3.9 line 19)						
	23	Supplies (form 3.9 line 35)						
	24	Other Current Assests (form 3.9 line 38)	600	5,700	5,100	600	5,700	5,100
	25	**TOTAL FARM CURRENT ASSETS** (add 14 thru 24)	37,650	88,953	51,303	37,650	88,953	51,303
		INTERMEDIATE ASSETS						
	26	Beef, breeding (form 3.8)	15,000	25,000	10,000	20,000	30,000	10,000
	27	Other breeding (form 3.8)						
	28	Other breeding (form 3.8)						
	29							
	30	Farm Accounts Receivable (forms 4.1 + 4.2)						
	31	Machinery and Equipment (form 3.1 or 3.2)	15,755	27,036	11,281	25,000	35,000	10,000
	32	**TOTAL FARM INTERMEDIATE ASSETS** (add 26 thru 31)	30,755	52,036	21,281	45,000	65,000	20,000
		LONG TERM ASSETS						
	33	Buildings (form 3.5 or 3.6)	5,500	6,700	1,200	10,000	12,000	2,000
	34	Land (form 3.5 or 3.6)	295,000	295,000	-0-	600,000	600,000	-0-
	35	**TOTAL FARM LONG TERM ASSETS** (add 33 + 34)	300,500	301,700	1,200	610,000	612,000	2,000
	36	**TOTAL FARM ASSETS** (add 25 + 32 + 35)	368,905	442,689	73,784	692,650	765,953	73,303
	37	**TOTAL ASSETS** (add 13 + 36)	368,905	442,689	73,784	692,650	765,953	73,303
			1	2	3	4	5	6

FORM 6.4 DATE: NET WORTH STATEMENT: FARM AND NON-FARM LIABILITIES 19___

	LINE		CURRENT VALUE			BOOK VALUE		
			BEGINNING	ENDING	NET CHANGE (8-7)	BEGINNING	ENDING	NET CHANGE (11-10)
NON-FARM LIABILITIES		**CURRENT LIABILITIES**						
	38	Charge Accounts	$	$	$	$	$	$
	39	Notes, portion due within 12 months						
	40	Mortgages, due within 12 months						
	41	Accrued Interest on non-farm liabilities						
	42	Non-Farm Business Liabilities due within 12 mos.						
	43	**TOTAL NON-FARM CURRENT LIABILITIES (add 38-42)**						
		INTERMEDIATE AND LONG TERM LIABILITIES						
	44	Notes, portion due beyond 12 months						
	45							
	46	Mortgages, portion due beyond 12 months						
	47	Non-Farm Business Liabilities due beyond 12 mos.						
	48	**TOTAL NON-FARM LIABILITIES (add 43 thru 47)**						
	49	**NON-FARM NET WORTH (line 13 minus line 48)**						
FARM LIABILITIES		**CURRENT LIABILITIES**						
	50	Short Term Farm Notes Payable (form 4.4)						
	51							
	52							
	53	Accounts Payable (form 4.3)						
	54							
	55							
	56	Credit Lines and Short Term Notes (form 4.4)						
	57	Intermediate Term Debt due within 12 months (form 4.5)	25,000	17,000	<8,000>	25,000	17,000	<8,000>
	58	Long Term Debt due within 12 months (form 4.5)						
	59	Accrued Liabilities (taxes, rent, etc.)						
	60	Accrued Interest						
	61	**TOTAL FARM CURRENT LIABILITIES (add 50 thru 60)**	25,000	17,000	<8,000>	25,000	17,000	<8,000>
		INTERMEDIATE LIABILITIES						
	62	Intermed. Term Debt Due beyond 12 months (form 4.5)	17,000	13,527	<3,473>	17,000	13,527	<3,473>
	63							
	64							
	65	**TOTAL FARM INTERMEDIATE LIABILITIES (add 62-64)**	17,000	13,527	<3,473>	17,000	13,527	<3,473>
		LONG TERM LIABILITIES						
	66	Long Term Debt Due beyond 12 months (form 4.5)	90,000	93,000	3,000	90,000	93,000	3,000
	67							
	68							
	69	**TOTAL FARM LONG TERM LIABILITIES (add 66-68)**	90,000	93,000	3,000	90,000	93,000	3,000
	70	**TOTAL FARM LIABILITIES (add 61 + 65 + 69)**	132,000	123,527	<8,473>	132,000	123,527	<8,473>
	71	**TOTAL FARM NET WORTH (line 36 minus 70)**	236,905	319,162	82,257	560,650	642,426	81,776
	72	**TOTAL LIABILITIES (add 48 + 70)**	132,000	123,527	<8,473>	132,000	123,527	<8,473>
	73	**TOTAL NET WORTH (line 37 minus 72)**	236,905	319,162	82,257	560,650	642,426	81,776
			7	8	9	10	11	12

WRITTEN TEST	NET WORTH STATEMENT	VI

NAME _____ SCORE _____

OBJECTIVE 1

Match terms associated with net worth statements to the correct definitions. Write the correct numbers in the blanks provided.

__1. Value of assets not claimed by individuals or firms outside the farm business or the owner's claim on those assets	a. Solvency
__2. Farm's capacity to generate sufficient cash to meet its financial obligations as they fall due	b. Liquidity
__3. Farm's ability to meet long-run claims against the business	c. Net worth
__4. Statement of financial assets and liabilities at a given date for the farm	d. Net worth statement
__5. Current assets minus current liabilities	e. Working capital
__6. Assets used in or claimed by the farm business	f. Inventory
__7. Financial claim against the farm business	g. Asset
__8. Relationship in quantity, amount, or size between two or more things	h. Liability
__9. Item or resource controlled by the farm business	i. Ratio
__10. Form used for comparative analysis of net worth statements from several years	j. Spread sheet
	k. Cost-effect sheet
	l. Debts
	m. Profit
	n. Money

OBJECTIVE 2

State five purposes of a net worth statement. Write your answers in the blanks below.

_____

_____

_____

_____

_____

OBJECTIVE 3

Distinguish among assets according to time and convertibility. Write in the correct blanks a "C" for current assets, an"I" for intermediate assets, and an "L" for long-term assets.

__ 1. Are used in production and are considered permanent

__ 2. Have prices which are widely known

__ 3. Have well-established markets

__ 4. Are not legally or directly attached to the land

__ 5. Have prices which may not be widely known

__ 6 Have the least-established markets

__ 7. Are cash and other liquid assets which may be quickly converted into cash without any loss in value

__ 8. Are used up in more than one production period

__ 9. Are usually not easily converted to cash without some loss in value

__ 10. Are not readily converted to cash because they normally are not held for sale

__ 11. Have markets which are negotiated by individuals

__ 12 Are primarily used in the production process

OBJECTIVE 4

Define liabilities according to time. Write your answer in the blanks provided.

Current liabilities— _____

_____

Intermediate liabilities— _____

_____

Long-term liabilities— _____

_____

OBJECTIVE 5

State the mathematical formula for determining net worth. Write your answer in the space provided.

OBJECTIVE 6

Select from the list below characteristics of current ratio. Mark each correct answer with an"X" in the blanks provided.

__ 1. A rate of below 1:1 is satisfactory in all cases

__ 2. Is probably used by more analysts than any other ratio

__ 3. Is calculated as $\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$

__ 4. For agriculture, a ratio of 2:1 is considered a good indicator of the firm's ability to meet short-run obligations

__ 5. Isn't very useful to most farm managers

__ 6. Gives class member an idea of farm's ability to meet its short-run payment obligations

__ 7. Is subjected by many analysts to qualitative test for each business

__ 8. A ratio of 1:1 is marginal; below 1:1 indicates potential liquidity problems

__ 9. Is calculated as $\frac{\text{CURRENT LIABILITIES}}{\text{CURRENT ASSETS}}$

OBJECTIVE 7

Select from the list below characteristics of working asset ratio. Mark each correct answer with an"X" in the blanks provided.

__ 1. Is used to determine farm solvency over an intermediate time space of one to 10 years

__ 2. A ratio of below 1:1 is considered a good indicator of the farm's ability to meet short-run obligations

__ 3. Is the ratio of current plus intermediate assets to current plus intermediate liabilities

__ 4. Is calculated as

$$\frac{\text{CURRENT + INTERMEDIATE ASSETS}}{\text{CURRENT + INTERMEDIATE LIABILITIES}}$$

__ 5. Gives class members an idea of the farm's ability to meet its short-run obligations

__ 6. Provides valuable information on loan security and repayability; a good rule of thumb for agriculture is a rate of 3:1

__ 7. Is considered by many analysts to be more valuable than any other tool of ratio analysis

__ 8. Is calculated as

$$\frac{\text{CURRENT + INTERMEDIATE LIABILITIES}}{\text{CURRENT + INTERMEDIATE ASSETS}}$$

OBJECTIVE 8

Select from the list below characteristics of net capital ratio. Mark each correct answer with an "X" in the blanks provided.

__1. Lenders generally like to see a ratio of 2:1 which indicates the borrower has substantial risk-bearing ability

__2. Compares current farm assets to current farm liabilities

__3. Is used as an indication of the long-run solvency of the business

__4. Compares total farm assets to total farm liabilities

__5. Lenders are not really interested in this ratio

__6. A ratio of less than one indicates that a business is insolvent and could not cover all of its debts if forced to liquidate

__7. Is calculated as $\frac{\text{TOTAL FARM ASSETS}}{\text{TOTAL FARM LIABILITIES}}$

__8. Is calculated as $\frac{\text{CURRENT ASSETS}}{\text{CURRENT LIABILITIES}}$

__9. Interests lenders because it shows debt load in relation to total asset value of the farm

OBJECTIVE 9

Select from the list below characteristics of debt-to-equity ratio. Mark each correct answer with an"X" in the blanks provided.

__1. Many lenders prefer that the borrower have at least as large of an investment in the farm as the lender

__2. Maximum debt-to-equity ratios should be 2:1

__3. Many lending institutions prefer low leverage ratios and interpret most movement in that direction as progress

__4. Measures the farm's total financial obligations to creditors in relation to the capital provided by the class member

__5. Is calculated as $\frac{\text{TOTAL LIABILITIES}}{\text{EQUITY (NET WORTH)}}$

__ 6. Generally speaking, maximum ratios should be 1:1

__ 7. Measures the firm's current financial obligations to creditors

__ 8. Higher ratios generate accelerated rates of growth when the rate of return on the investment is greater than the interest rate

__ 9. Is calculated as $\frac{\text{EQUITY (NET WORTH)}}{\text{TOTAL LIABILITIES}}$

OBJECTIVE 10

Select from the list below characteristics of percent equity ratio. Mark each correct response with an "X" in the blanks provided.

__ 1. Lenders always loan on a percent equity ratio of below 50%

__ 2. Is the ratio of net worth to total assets

__ 3. Is calculated as $\frac{\text{NET WORTH X 100}}{\text{TOTAL ASSETS}}$

__ 4. Lenders prefer to loan on a percent equity above 50%

__ 5. Is a measure of risk-bearing ability of the farm

__ 6. Is the ratio of net worth to current assets

__ 7. Is calculated as $\frac{\text{NET WORTH X 50}}{\text{CURRENT ASSETS}}$

__ 8. Is the best measure of all ratios

NOTICE: Test questions 11 and 12 list the assignment sheets. They are an important part of this test. If they have not been completed, check with your instructor.

OBJECTIVE 11 **Complete a net worth statement.** SCORE ____

OBJECTIVE 12 **Use a spread sheet to analyze net worth.** SCORE ____

WRITTEN TEST ANSWERS	NET WORTH STATEMENT	VI

OBJECTIVE 1

1. c	6. f
2. b	7. h
3. a	8. i
4. d	9. g
5. e	10. j

OBJECTIVE 2

- Measure present financial position
- Records growth in the farm business through changes in net worth
- Provides an indication of the amount of debt supported by various classes of assets
- Provides early warning through ratio analysis of problems that may arise in the short-run, intermediate, and long-run
- Reveals liquidity and solvency

OBJECTIVE 3

1. L	7. C
2. C	8 I
3. C	9. I
4. I	10. L
5. I	11. I
6. L	12. I

OBJECTIVE 4

- Claims falling due within one year
- Claims which are for more than one year but less than 10 years
- Claims exceeding 10 years in maturity

OBJECTIVE 5	NET WORTH = TOTAL ASSETS - TOTAL LIABILITIES
OBJECTIVE 6	2, 3, 4, 6, 7, 8
OBJECTIVE 7	1, 3, 4, 6
OBJECTIVE 8	1, 3, 4, 6, 7, 9
OBJECTIVE 9	1, 3, 4, 5, 6, 8
OBJECTIVE 10	2, 3, 4, 5
OBJECTIVE 11	Refer to answers to Assignment Sheet 1
OBJECTIVE 12	Refer to answers to Assignment Sheet 2

OBJECTIVE SHEET	INCOME STATEMENTS	VII

UNIT OBJECTIVE

After completing this unit, the class member should be able to complete and interpret his or her own income statement. The class member will demonstrate these competencies by completing assignment sheets and written test with a minimum of 85 percent accuracy.

SPECIFIC OBJECTIVES

After completing this unit, the class member should be able to

1. Match terms associated with income statements to their correct definitions.
2. Name basic financial statements found in most record systems.
3. State purposes of the income statement.
4. Select from a list characteristics of net farm income.
5. Distinguish between basic accounting methods for determining net farm income.
6. Match basic sections of the income statement to the correct definitions.
7. Distinguish among types of income figures used in analyzing income.
8. Describe characteristics of a comparative income statement analysis sheet.
9. Complete a farm income statement. (Assignment Sheet 1)

SUGGESTED ACTIVITIES	INCOME STATEMENTS	VII

PREPARATION

Read unit and plan delivery method for each objective.

DELIVERY

Objective 1

- Discuss the terms associated with income statements.

Objective 2

- Discuss the basic financial statements found in most record systems and explain each.

Objective 3

- Explain the purposes of the income statement.
- Stress the income statement's importance to the farm business.

Objective 4

- Use objective 4 to explain the characteristics of net farm income.
- Compare the net farm income to other forms ie. expenses and inventories.

Objective 5

- Use objective 5 to differentiate between the cash method and accrual method of determining net farm income.

Objective 6

- Discuss the basic sections of the income statement.

Objective 7

- Use objective 7 to differentiate the types of income figures used in analyzing income.

Objective 8

- Discuss the characteristics of a comparative income statement analysis sheet.

- Assist with completion of each class member's computerized whole farm and detailed enterprise analysis during on-farm visit.
- Assist with completion and interpretation of each class member's income statement during the on-farm visit.
- Assist with state and area comparative analysis by determining which class member's farms are ready for the analysis.
- Assist each class member in starting an income statement analysis sheet for long-range trends.

APPLICATION

Objective 9

- Have class members complete a farm income statement using Assignment Sheet 1.

EVALUATION

Written Test

- Explain to students that they will be asked to demonstrate on the written test those actions listed in the specific objectives.
- Give test.

  NOTE: The written test may be given in sections if desired.
- Evaluate class members on assignment sheet activity if not previously done.
- Reteach and retest if necessary.
- Complete appropriate section of competency profile.
- Review individual and group performance in order to evaluate teaching methods. Adjust scope, sequence, or instructional approaches for additional lessons as required.

UNIT REFERENCES

- Steward, Jim. *Farm Business Management II*. Stillwater, Oklahoma: Oklahoma State Department of Vocational and Technical Education, 1981.

INFORMATION SHEET	INCOME STATEMENTS	VII

OBJECTIVE 1

Match terms associated with income statements to their correct definitions.

- **Book value**—Tax basis of assets or liabilities
- **Cash flow statement**—Listing of all cash inflows and outflows for the farm business over a specified period of time
- **Current value**—Market value of assets or liabilities
- **Expenditure**—Cash flowing out of the farm business
- **Income statement**—Financial record reflecting the farm business profitability over a specified period of time

  NOTE: An income statement also may be know as an *operation statement* or a *profit and loss statement.*
- **Net farm income**—Monetary value available for family living, income taxes, debt retirement, increased equity in the business, non-farm investment or other savings
- **Net worth**—Owner's share of the farm business
- **Net worth statement**—Summary of all assets and liabilities in the farm business at a specific point in time
- **Receipt**—Cash income flowing into the farm business
- **Unpaid labor**—Labor contributed by the operator and farm family to the operation of the farm business

OBJECTIVE 2

Name basic financial statements found in most record systems.

- Net worth statement
- Cash flow statement
- Income statement

OBJECTIVE 3 **State purposes of the income statement.**

- Measures profitability of the farm over a specific period of time
- Makes profit and loss sources easier to identify
- Shows disposition of net farm income

OBJECTIVE 4 **Select from a list characteristics of net farm income.**

- Measures return to unpaid labor
- Measures return to net worth
- Measures return to operator's management

OBJECTIVE 5 **Distinguish between basic accounting methods for determining net farm income.**

Cash method

- Receipts and expenses are reported during the period when cash or money actually exchanges hands
- True profits may be distorted between accounting periods

Accrual method

- Receipts and expenses are reported during the period when actually earned or incurred
- Receipts and expenses are allocated to the correct accounting period through inventory adjustments

NOTE: Accrual method of determining net farm income should be used for business analysis and management purposes; however, cash method may be used for income tax purposes.

OBJECTIVE 6

Match basic sections of the income statement to their correct definitions.

- **Receipts**—Incoming cash from the sale of crops, raised non-breeding livestock sales, livestock bought for resale, capital sales, and miscellaneous receipts, which may include government payments, crop insurance, prize money, rental income from farm property, and interest from farm investments

  NOTE: Capital sales include sales of machinery, equipment, breeding livestock, buildings, and land.

- **Expenditures**—All expenses, fixed or variable, related to the operation of the business

  EXAMPLES: Operation expenditures; livestock bought for resale; breeding livestock; machinery and equipment; land; buildings and improvements

- **Adjustments for accrued receipt and expense items**—Accounts receivable and payable at the end of the accounting period

  NOTE: Accounts receivable represent the value of cash not yet received for sales made or for services provided during the accounting period. Other receivables might be farm rent or interest income that has accrued but has not been received. Accounts payable include accrued property tax, interest, and cash expenses and operating inputs purchased but not yet paid for.

- **Inventory adjustment**—Differences between value of assets at the beginning of the year and the value of assets at the end of the year

  EXAMPLES: Livestock; feeds; crops and supplies; machinery and equipment; land and building improvements

- **Value of products used in the home**—Cost value of farm products used for personal use

OBJECTIVE 7

Distinguish among types and descriptions of income figures used in analyzing income.

Net cash income

- Is the difference between cash receipts and cash expenses
- Has limited use in analysis
- Indicates amount of cash available to use for family living, retirement of debts, and off-farm investments

  NOTE: If net cash income is low, a less rapid buildup of inventories or obtaining longer credit terms may help alleviate the problem.

Net farm earnings

- Is net cash income adjusted for accrued receipt and expense items
- Is an approximation of income on the accrual basis

  NOTE: Net farm earnings show net earnings for all inputs bought and outputs sold during the year, even if payment or receipt is delayed until the following year.

- Net farm income

Net farm income

- Is net farm earnings adjusted for changes in inventory and value of products used in the home
- Is income accruing to the operator and family labor, net worth, and management

  NOTE: Net farm income represents the true net income of the farm business

- Measures the profitability of the farm business during an accounting period

OBJECTIVE 8

Describe characteristics of a comparative income statement analysis sheet.

- Several income statements should be obtained for trend analysis

  NOTE: The income statement from one extremely profitable year can be highly misleading, as can the sole statement from a bad year.

- The trend of receipts and expenses and net farm income over time is important in credit analysis

- A closer look at the overall capital structure may be called for if capital investment charges are becoming increasingly large relative to farm receipts

  EXAMPLE: Analysis might point out that the business is becoming overly invested in fixed assets relative to the farm's capacity to generate sufficient revenue to pay for those assets

  NOTE: Date provided by the income statement looks at the farm business as a whole; thus, enterprise records are needed to supplement the statement.

- Comparing net farm income over time indicates the growth or decline in business profitability

ASSIGNMENT SHEET 1	INCOME STATEMENTS	VII

OBJECTIVE 9

Complete a farm income statement.

INTRODUCTION

How well has the farm business performed? Did it make a profit or loss? Recent income tax returns are unreliable indicators of how well a business is doing. Selling crops produced in a prior year, rapid depreciation, purchasing next year's feed or seed, and other conditions can substantially affect taxable income in any give year. As a result, taxable income may not adequately represent the earning power of the farm business.

The income statement provides information on how well the business actually did over a specified period of time. It is a useful analytical tool, particularly when statements from a number of years are available for comparative purposes.

DIRECTIONS

Using the information given below and the Form 6.6 on the following pages, complete an income statement for calendar year 19XX.

RECEIPTS

Crop sales—$9,300.00

Miscellaneous receipts—$2,150.00

Raised non-breeding livestock sales—$20,195.00

Livestock purchased for resale sales—$35,995.00

Capital sales—$8,000.00

EXPENDITURES

Operating expenditures—$11,200.00

Livestock purchased for resale—$18,995.00

Breeding livestock—$8,000.00

Machinery and equipment—$35,000.00

Land, buildings, and improvements—$1,200.00

ADJUSTMENTS FOR ACCRUED RECEIPT AND EXPENSE ITEMS

Livestock — Beginning of year: $63,847.00; End of year: $66,222.00

Feed, crops, and supplies — Beginning of year: $2,347.00; End of year: $3,025.00

Machinery and equipment — $26,000.00 increase

Land, buildings, and improvement—$500.00 decrease

VALUE OF PRODUCTS USED IN THE HOME

Butchered steer for freezer — Estimated market value: $625.00

FORM 6.6 **FARM INCOME STATEMENT FOR 19___**

LINE		(1) BEGINNING	(2) ENDING	(3) NET CHANGE (2 - 1)	
1	TOTAL FARM RECEIPTS (form 6.2, line B)			$	
2	TOTAL FARM EXPENSES (form 6.2, line E)			$	
3	NET CASH INCOME (line 1 – line 2)				$
4	ACCOUNTS RECEIVABLE* (form 6.3, line 15 + line 30)	$	$	$	
5	ACCOUNTS PAYABLE* (form 6.4, line 53 + line 59 + line 60)	$	$	$	
6	ADJUSTMENT FOR ACCOUNTS RECEIVABLE AND PAYABLE (line 4 col. 3 – Line 5 col. 3)				$
7	NET FARM EARNINGS (line 3 + line 6)				$
8	LIVESTOCK (form 3.8, FORM TOTAL)	$	$	$	
9	FEED, CROPS, AND SUPPLIES (form 3.9, FORM TOTAL)	$	$	$	
10	MACHINERY AND EQUIPMENT (form 6.3, line 31)	$	$	$	
11	LAND, BUILDINGS, AND IMPROVEMENTS (form 6.3, line 35)	$	$	$	
12	TOTAL INVENTORY ADJUSTMENTS (add line 8 col. 3 thru line 11 col. 3)				$
13	VALUE OF PRODUCTS USED IN THE HOME (form S-1 or estimate)				$
14	NET FARM INCOME: RETURN TO UNPAID LABOR, NET WORTH, AND MANAGEMENT (line 7 + line 12 + line 13)				$

*Include accounts for sale of livestock, livestock products, crops, supplies, machine work, etc., and prepaid expenses.

**Include operating accounts for purchase of feed, chemicals, and custom services, insurance, and other accounts such as interest, property, employment, and fuel taxes.

ASSIGNMENT SHEET 1

See next page.

FORM 6.6 **FARM INCOME STATEMENT FOR 19___**

LINE		(1) BEGINNING	(2) ENDING	(3) NET CHANGE (2 - 1)	
1	TOTAL FARM RECEIPTS (form 6.2, line B)			$ 75,640	
2	TOTAL FARM EXPENSES (form 6.2, line E)			$ 74,395	
3	NET CASH INCOME (line 1 - line 2)				$ 1,245
4	ACCOUNTS RECEIVABLE* (form 6.3, line 15 + line 30)	$ 3,700	$ 2,200	$ 1,500	
5	ACCOUNTS PAYABLE* (form 6.4, line 53 + line 59 + line 60)	$ 3,500	$ 10,000	$ 6,500	
6	ADJUSTMENT FOR ACCOUNTS RECEIVABLE AND PAYABLE (line 4 col. 3 - Line 5 col. 3)				$ 74,395
7	NET FARM EARNINGS (line 3 + line 6)				$ 1,245
8	LIVESTOCK (form 3.8, FORM TOTAL)	$ 63,847	$ 66,222	$ 2,375	
9	FEED, CROPS, AND SUPPLIES (form 3.9, FORM TOTAL)	$ 2,347	$ 3,025	$ 678	
10	MACHINERY AND EQUIPMENT (form 6.3, line 31)	$ 29,020	$ 55,020	$ 26,000	
11	LAND, BUILDINGS, AND IMPROVEMENTS (form 6.3, line 35)	$ 43,000	$ 42,500	$ <500>	
12	TOTAL INVENTORY ADJUSTMENTS (add line 8 col. 3 thru line 11 col. 3)				$ 28,553
13	VALUE OF PRODUCTS USED IN THE HOME (form S-1 or estimate)				$ 625
14	NET FARM INCOME: RETURN TO UNPAID LABOR, NET WORTH, AND MANAGEMENT (line 7 + line 12 + line 13)				$ 25,423

*Include accounts for sale of livestock, livestock products, crops, supplies, machine work, etc., and prepaid expenses.

**Include operating accounts for purchase of feed, chemicals, and custom services, insurance, and other accounts such as interest, property, employment, and fuel taxes.

WRITTEN TEST	INCOME STATEMENTS	VII

NAME _____ SCORE _____

OBJECTIVE 1

Match terms associated with income statements to the correct definitions. Write the correct numbers in the blanks provided.

__ 1. Cash income flowing into the farm business	a. Current value
__ 2. Financial record reflecting the farm business profitability over a specified period of time	b. Business records
__ 3. Cash flowing out of the farm business	c. Net worth statement
__ 4. Summary of all assets and liabilities in the farm business at a specific point in time	d. Unpaid labor
__ 5. Tax basis of assets or liabilities	e. Liability
__ 6. Listing of all cash inflows and outflows for the farm business over a specified period of time	f. Cash flow statement
__ 7. Market value of assets or liabilities	g. Book value
__ 8. Labor contributed by the operator and farm family to the operation of the farm business	h. Net worth
__ 9. Owner's share of the farm business	i. Income statement
__ 10. Monetary value available for family living, income taxes, debt retirement, increased equity in the business, non-farm investment or other savings	j. Net farm income
	k. Overall value
	l. Receipt
	m. Expenditure

OBJECTIVE 2

Name basic financial statements found in most record systems. Write your answer in the blanks provided.

_____

_____

_____

OBJECTIVE 3

State purposes of the income statement. Write your answer in the blanks provided.

_____

_____

_____

OBJECTIVE 4

Select from the list below characteristics of net farm income. Mark each correct answer with an "X" in the blanks provided.

__ 1. Measures return to unpaid labor

__ 2. Measures the difference between cash receipts and cash expenses

__ 3. Measures return to net worth

__ 4. Measures return to operator's management

__ 5. Has unlimited use in analysis

OBJECTIVE 5

Distinguish between basic accounting methods for determining net farm income. Write in the correct blanks an "A" for the accrual method and a "C" for the cash method.

__1. True profits may be distorted between accounting periods

__2. Receipts and expenses are reported during the period when actually earned or incurred

__3. Receipts and expenses are allocated to the correct accounting period through inventory adjustments

__4. Receipts and expenses are reported during the period when cash or money actually exchanges hands

OBJECTIVE 6

Match basic sections of the income statement to the correct definitions. Write the correct numbers in the blanks provided.

__1. All expenses, fixed or variable, related to the operation of the business

__2. Incoming cash from the sale of crops, raised non-breeding livestock sales, livestock bought for resale, capital sales, and miscellaneous receipts, which may include government payments, crop insurance, prize money, rental income from farm property, and interest from farm investments

__3. Accounts receivable and payable at the end of the accounting period

__4. Differences between the value of assets at the beginning of the year and the value of assets at the end of the year

__5. Cost value of farm products used for personal use

a. Receipts

b. Inventory

c. Face value

d. Expenditures

e. Adjustment for accrued receipt and expense items

f. Value of products used in the home

OBJECTIVE 7

Distinguish among types of income figures used in analyzing income. Write in the correct blanks an "N" for net cash income, an "E" for net farm earnings, and an "I" for net farm income.

__ 1. Is the difference between cash receipts and cash expenses

__ 2. Is net cash income adjusted for accrued receipt and expense items

__ 3. Is net farm earnings adjusted for changes in inventory and value of products used in the home

__ d. Is income accruing to the operator and family labor, net worth, and management

__ e. Measures the profitability of the farm business during an accounting period

__ f. Is an approximation of income on the accrual basis

__ g. has limited use in analysis

__ h. Indicates amount of cash available to use for family living, retirement of debts, and off-farm investments

OBJECTIVE 8

Describe characteristics of a comparative income statement analysis sheet. Write your answer in the space provided.

_____

_____

_____

_____

NOTICE:

Test question 9 lists the assignment sheet. It is not part of the test. If the assignment sheet has not been completed, check with your instructor.

OBJECTIVE 9

Complete a farm income statement. Score _____

OBJECTIVE 1

1. l
2. i
3. m
4. c
5. g
6. f
7. a
8. d
9. h
10. j

OBJECTIVE 2

- Net worth statement
- Cash flow statement
- Income statement

OBJECTIVE 3

- Measures profitability of the farm over a specific period of time
- Makes profit and loss sources easier to identify
- Shows disposition of net farm income

OBJECTIVE 4

1, 3, 4

OBJECTIVE 5

1. C
2. A
3. A
4. C

OBJECTIVE 6

1. d
2. a
3. e
4. b
5. f

OBJECTIVE 7

1. N	5. I
2. E	6. E
3. I	7. N
4. I	8. N

OBJECTIVE 8

Description should include

- Several income statements should be obtained for trend analysis
- The trend of receipts and expenses and net farm income over time is important in credit analysis
- A closer look at the overall capital structure may be called for if capital investment charges are becoming increasingly large relative to farm receipts
- Comparing net farm income over time indicates the growth or decline in business profitability

OBJECTIVE 9

Refer to answers to Assignment Sheet 1.